

**Agency Proposed Budget**

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	42.66	5.50	4.00	52.16	6.00	4.00	52.66	52.66
Personal Services	2,159,785	475,911	191,305	2,827,001	502,169	191,532	2,853,486	5,680,487
Operating Expenses	2,373,103	2,971,002	1,614,215	6,958,320	2,765,992	1,610,797	6,749,892	13,708,212
Equipment	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	16,806,107	22,928,071	2,000,000	41,734,178	4,838,461	0	21,644,568	63,378,746
Benefits & Claims	0	0	0	0	0	0	0	0
Transfers	0	0	3,000,000	3,000,000	0	0	0	3,000,000
<b>Total Costs</b>	<b>\$21,338,995</b>	<b>\$26,374,984</b>	<b>\$6,805,520</b>	<b>\$54,519,499</b>	<b>\$8,106,622</b>	<b>\$1,802,329</b>	<b>\$31,247,946</b>	<b>\$85,767,445</b>
General Fund	1,960,812	5,498,577	5,305,520	12,764,909	5,277,138	302,329	7,540,279	20,305,188
State/Other Special	1,892,461	4,448,371	1,500,000	7,840,832	2,500,553	1,500,000	5,893,014	13,733,846
Federal Special	17,485,722	16,428,036	0	33,913,758	328,931	0	17,814,653	51,728,411
<b>Total Funds</b>	<b>\$21,338,995</b>	<b>\$26,374,984</b>	<b>\$6,805,520</b>	<b>\$54,519,499</b>	<b>\$8,106,622</b>	<b>\$1,802,329</b>	<b>\$31,247,946</b>	<b>\$85,767,445</b>

**Agency Description**

The Department of Commerce works with economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public to diversify and expand the state's economic base through business creation and expansion, and retention and improvement of infrastructure, housing and facilities.

The department is composed of eight major divisions including Business Resources, Montana Promotion, Community Development, Housing, and Director's Office/Management Services divisions, as well as the Board of Research and Commercialization, the Montana Facility Finance Authority, the Montana Board of Investments, and the Montana Heritage Commission.

**Agency Highlights**

Department of Commerce Major Budget Highlights	
◆	The biennial budget would double if all of the executive proposals were adopted
◆	General fund would increase \$16.4 million due primarily to the Governor's recommendation to continue most of the economic development programs funded by the 2005 Legislature as one-time only- appropriations
◆	The Governor also funds several new initiatives with general fund in his proposed budget, including: <ul style="list-style-type: none"> <li>• Manufactured Home Renovation Program -- \$3.0 million OTO seed money for a revolving loan</li> <li>• Biomedical Research Grant – Biennial/OTO -- \$2.0 million</li> <li>• Revive the Community Technical Assistance Program -- \$0.3 million</li> <li>• Transfer Tribal Economic Development Commission to the department -- \$0.2 million</li> <li>• Fund Montana Capital Investment Board – OTO - \$0.4 million general fund and \$0.07 million state special revenue</li> </ul>

<ul style="list-style-type: none"> <li>◆ State special revenue authority would increase \$9.9 million <ul style="list-style-type: none"> <li>• Manufactured Home Renovation Program -- \$3.0 million authority for the revolving loan</li> <li>• Micro Business Revolving Loans -- \$4.0 million</li> <li>• Coal Board grant authority – Biennial - \$1.1 million</li> <li>• Statewide and other present law adjustments -- \$1.3 million</li> </ul> </li> <li>◆ Federal special revenue authority would increase \$16.8 million <ul style="list-style-type: none"> <li>• Authority to record pre-2004 outstanding federal grant awards -- \$16.4 million</li> <li>• Statewide and other present law adjustments -- \$0.4 million</li> </ul> </li> </ul>
<b>Department of Commerce</b> <b>Major LFD Issues</b>
<ul style="list-style-type: none"> <li>◆ Many of the new or continued initiatives lack specific and/or meaningful performance measures and milestones that will enable the legislature to evaluate the success of the program</li> </ul>

### Agency Discussion

#### *Goals and Objectives:*

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2007 biennium
- Goals and objectives and their correlation to the 2009 biennium budget request
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Any issues related to goals and objectives raised by LFD staff are located in the program section.

#### *Statutory Appropriations*

Several programs in the department are funded with statutory appropriations. These appropriations are in statute, and consequently are not included in HB 2. Figure 1 presents the statutory reference for each appropriation, what the appropriation is for, and the actual and projected expenditures for the current and upcoming biennia.

Figure 1  
Department of Commerce  
Statutory Appropriations  
FY 2006 - 2009

Program	MCA Reference	Description	Fund Source	FTE Fiscal 2006	FTE Fiscal 2009	FY 2006 Base	FY 2008 Executive Budget	FY 2009 Executive Budget
Research & Commercialization	15-35-108	Research & Commercialization	General Fund <sup>(1)</sup>			\$3,650,000	\$3,650,000	\$3,650,000
Research & Commercialization	90-3-1003	Research & Commercialization	State Special	2.00	2.00	4,432,143	4,447,904	4,444,822
Business Resources Division	15-35-108	Business & Economic Development	General Fund	4.00	4.00	1,099,655	1,100,000	1,100,000
Business Resources Division	90-1-205	Big Sky Economic Development	State Special	1.00	1.00	176,005	1,818,811	2,076,433
Business Resources Division	15-65-121	Lodging Facility Use Tax	State Special			150,000	150,000	150,000
Montana Promotion Division	15-65-121	Lodging Facility Use Tax-Regional	State Special			3,256,146	3,607,913	3,789,309
Montana Promotion Division	15-65-121	Lodging Facility Use Tax-Department	State Special	27.00	27.00	8,262,001	10,648,672	11,118,691
Board of Investments	17-7-502	Debt Service	Proprietary			3,068,933	5,621,546	5,781,182
MT Heritage Commission	22-3-1004	MT Heritage Commission	State Special	18.25	18.25	1,133,018	1,303,514	1,302,242
MT Heritage Commission	22-3-1004	MT Heritage Commission	Federal Special			15,868	20,000	20,000
GRAND TOTAL				52.25	52.25	<u>\$25,243,769</u>	<u>\$32,368,360</u>	<u>\$33,432,679</u>
Total General Fund						\$4,749,655	\$4,750,000	\$4,750,000
Total State Special						17,409,313	21,976,814	22,881,497
Total Federal						15,868	20,000	20,000
Total Proprietary						<u>3,068,933</u>	<u>5,621,546</u>	<u>5,781,182</u>
GRAND TOTAL						<u>\$25,243,769</u>	<u>\$32,368,360</u>	<u>\$33,432,679</u>

(1)The general fund appropriation is deposited to a state special revenue fund for the research & commercialization program.

### 2007 Biennium New Initiative Update

The 2005 Legislature approved a \$1.0 million general fund one-time-only appropriation for an Indian Country Economic Development program intended to promote economic development on Tribal reservations. In FY 2006, each tribe was awarded \$55,000 for Tribal economic development projects that addressed a priority economic development need identified by the Tribal government. In FY 2007, \$50,000 will be awarded to each tribe. The remaining funds were used for economic analysis of the reservation economies in Montana and other related activities. The executive budget recommends continuing the funding for this program as a one-time-only but increasing the biennial appropriation to \$1.6 million general fund.

The 2005 Legislature approved a \$2.8 million general fund one-time-only appropriation and 2.0 FTE for the Worker Training Program for the 2007 biennium intended to provide grants for work force training that results in high-wage and high-skilled jobs. One hundred thousand dollars each year was set aside for program administration, leaving \$2.6 million available for grants in the 2007 biennium. In FY 2006, two grants totaling \$275,000 were distributed, and in FY 2007, four grants totaling \$2.07 million were distributed. The executive anticipates distributing the remaining \$255,000 by the end of FY 2007. The executive budget recommends continuing the funding for this program as a one-time-only but increasing the biennial appropriation to \$8.0 million general fund.

### Funding

The following table summarizes funding for the agency, by program and source, as recommended by the executive. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2009 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
51 Business Resources Division	\$ 16,366,239	\$ 4,701,310	\$ 11,562,461	\$ 32,630,010	38.04%
52 Montana Promotion Division	-	1,519,595	-	1,519,595	1.77%
60 Community Development Division	834,705	4,512,941	21,293,967	26,641,613	31.06%
74 Housing Division	3,104,244	3,000,000	17,420,691	23,524,935	27.43%
81 Director/Management Services	-	-	1,451,292	1,451,292	1.69%
Grand Total	<u>20,305,188</u>	<u>13,733,846</u>	<u>51,728,411</u>	<u>85,767,445</u>	100.00%

The Department of Commerce is funded from general fund, state special revenue, federal special revenue, and proprietary funds. Proprietary funds are excluded from the above agency proposed budget table and HB 2. However, proprietary funds are presented and discussed in the budget analysis in the various programs in the department that use proprietary funds. Also excluded from the agency proposed budget table and HB 2 are statutory appropriations for several programs administered by the department. See Figure 1 in the Agency Discussion section at the beginning of the agency narrative for a summary of statutory appropriations for the current and upcoming biennia.

The Governor proposes adding new programs to the department in the 2009 biennium, as well as restoring several programs that were funded with one time only appropriations by the 2005 Legislature. Per state statute, one-time-only appropriations are excluded from the base expenditures for biennial budget projections.

The Governor funds most of the proposed new and restored programs with general fund. General fund would increase \$16.4 million, 417 percent, from the doubled FY 2006 base in the 2009 biennium. Proposed new programs funded with general fund include:

1. Manufactured Home Renovation Program -- \$3.0 million OTO seed money that would be transferred to a state special revenue fund for a revolving loan account, and \$104,244 general fund for base administration costs;
2. Biomedical Research Grant – Biennial/OTO -- \$2.0 million;
3. Restore funding for the Community Technical Assistance program -- \$332,196 added to the base in the 2009 biennium;
4. Transfer the Tribal Economic Development Commission from the Governor's Office to the Department of Commerce -- \$171,409 added to the base in the 2009 biennium; and
5. Montana Capital Investment Board – OTO -- \$370,146 general fund and \$73,209 state special revenue.

The Governor also continues or increases one time only general fund appropriations authorized by the 2005 Legislature as listed below:

1. New Worker Training – OTO -- \$8.0 million for the 2009 biennium, up from \$2.8 million for the 2007 biennium;
2. Main Street – OTO – The Governor recommends \$247,044 general fund for continuing this program in the 2009 biennium, a funding switch from the highways non-restricted funds approved by the 2005 Legislature;
3. Made in Montana – OTO – \$200,000, the same amount as the 2007 biennium; and
4. Tribal Economic Development – OTO -- \$1.6 million, up from \$1.0 million for the 2007 biennium.

State special revenue would increase \$9.9 million, 262 percent, in the 2009 biennium from the doubled FY 2006 base for new proposals and present law adjustments recommended by the Governor:

1. Establish Manufactured Home Renovation Revolving Fund -- \$3.0 million;
2. Add authority for Micro Business Revolving Loans -- \$4.0 million;
3. Increase Coal Board grant authority – Biennial -- \$1.1 million;
4. Increase private fund authority in Montana Promotion Division -- \$518,480; and
5. Statewide and other present law adjustments -- \$1.3 million.

Federal special revenue would increase \$16.8 million, 48 percent, in the 2009 biennium from the doubled FY 2006 base for present law adjustments recommended by the Governor:

1. Increased federal authority to allow the department to record expenditure accruals for outstanding pre-2004 federal grant awards -- \$16.4 million; and
2. Statewide and other present law adjustment -- \$.4 million.

**Biennium Budget Comparison**

The following table compares the executive budget request in the 2009 biennium with the 2007 biennium by type of expenditure and source of funding. The 2007 biennium consists of actual FY 2006 expenditures and FY 2007 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	Present Law Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Biennium Fiscal 06-07	Total Exec. Budget Fiscal 08-09
FTE	48.16	4.00	52.16	48.66	4.00	52.66	42.66	52.66
Personal Services	2,635,696	191,305	2,827,001	2,661,954	191,532	2,853,486	4,513,497	5,680,487
Operating Expenses	5,344,105	1,614,215	6,958,320	5,139,095	1,610,797	6,749,892	5,313,079	13,708,212
Equipment	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	39,734,178	2,000,000	41,734,178	21,644,568	0	21,644,568	35,051,421	63,378,746
Benefits & Claims	0	0	0	0	0	0	0	0
Transfers	0	3,000,000	3,000,000	0	0	0	0	3,000,000
Total Costs	\$47,713,979	\$6,805,520	\$54,519,499	\$29,445,617	\$1,802,329	\$31,247,946	\$44,877,997	\$85,767,445
General Fund	7,459,389	5,305,520	12,764,909	7,237,950	302,329	7,540,279	3,989,046	20,305,188
State/Other Special	6,340,832	1,500,000	7,840,832	4,393,014	1,500,000	5,893,014	5,026,623	13,733,846
Federal Special	33,913,758	0	33,913,758	17,814,653	0	17,814,653	35,862,328	51,728,411
Total Funds	\$47,713,979	\$6,805,520	\$54,519,499	\$29,445,617	\$1,802,329	\$31,247,946	\$44,877,997	\$85,767,445

**New Proposals**

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5111 - Tribal Economic Development Commission - HB0002 (Requires Legislation)										
51	1.00	85,657	0	0	85,657	1.00	85,752	0	0	85,752
DP 5112 - BRD - Biomedical Research Grant - Bien/OTO										
51	0.00	2,000,000	0	0	2,000,000	0.00	0	0	0	0
DP 6001 - CDD Community Technical Assistance Program HB0002										
60	2.00	166,026	0	0	166,026	2.00	166,170	0	0	166,170
DP 7411 - HD Manufactured Home Renovation Program - OTO										
74	1.00	3,053,837	0	0	3,053,837	1.00	50,407	0	0	50,407
DP 7412 - HD Manufactured Home Renovation Program SSR Approp										
74	0.00	0	1,500,000	0	1,500,000	0.00	0	1,500,000	0	1,500,000
<b>Total</b>	<b>4.00</b>	<b>\$5,305,520</b>	<b>\$1,500,000</b>	<b>\$0</b>	<b>\$6,805,520</b>	<b>4.00</b>	<b>\$302,329</b>	<b>\$1,500,000</b>	<b>\$0</b>	<b>\$1,802,329</b>

**Agency Issues***FY 2008 OTO Federal Grants Adjustment Requests*

The executive budget includes \$16.4 million additional federal spending authority in FY 2008 as a one-time-only appropriation to allow the department to record expenditure accruals for pre-FY 2004 outstanding federal grant awards in three of its divisions. The department receives federal grants from the U.S. Department of Housing and Urban Development (HUD) for which it has federal grant authority to obligate and spend over a number of years. The executive recommends adding state appropriation authority in FY 2008 only to allow the department to accrue outstanding obligations.

The amount of the executive recommendation is an estimate only. The legislature may wish to consider restricting the federal appropriation authority for its intended, stated purpose. This would allow the department to have the federal authority available if needed and would also prevent the authority from being transferred to other programs and used for other purposes.

*Economic Development Programs*

The executive budget includes several economic development programs that were started in recent sessions, as well as proposing new economic development initiatives. The funding for these economic development programs is appropriated via HB 2 or a statutory appropriation.

The figure below lists the economic development programs included in the executive budget. The table also includes the appropriation authority source and the proposed budget for the 2009 biennium. Those programs funded in HB 2 are discussed in more detail in the program narratives for the Department of Commerce. Those programs funded via a statutory appropriation are not in HB 2 and consequently sometimes do not receive the same level of scrutiny as HB 2 appropriations. The legislature may wish to require information from the executive that allows it to evaluate the effectiveness of the economic development programs. For example, the Research and Commercialization statutory appropriation was established in the 2000 special legislative session. The legislature may wish to review the goals of the Research and Commercialization program established at that session and evaluate its success. Is the program still necessary? Similarly with the Big Sky Economic Development program approved by the 2005 Legislature; what were the goals of the program and what outcomes will define success for this program?

Figure 2 Economic Development Programs Executive Budget Request 2009 Biennium						
Program	Appropriation Authority	Fund	FY 2006 Base	FY 2007 Estimated	FY 2008 Executive Budget	FY 2009 Executive Budget
Research & Commercialization	Statutory	Gen Fund	\$3,650,000	\$3,650,000	\$3,650,000	\$3,650,000
Research & Commercialization	Statutory	SSR	4,432,114	3,809,544	4,447,904	4,444,822
Business & Economic Development	Statutory	Gen Fund	1,099,655	1,100,000	1,100,000	1,100,000
Big Sky Economic Development	Statutory	SSR	176,005	1,581,000	1,818,811	2,076,433
New Worker Training - OTO	HB 2	Gen Fund	599,511	2,200,489	3,397,361	3,997,450
Main Street - OTO	HB 2	Gen Fund	0	0	123,496	123,548
Main Street - OTO	HB 2	SSR	125,000	125,000	0	0
Made in Montana - OTO	HB 2	Gen Fund	100,000	100,000	100,000	100,000
Tribal Economic Development-OTO	HB 2	Gen Fund	490,979	500,000	798,496	798,548
Biomed Research Grant - OTO	HB 2	Gen Fund	0	0	2,000,000	0
MT Capital Investment Board	HB 2	Gen Fund	0	0	296,936	73,210
MT Capital Investment Board	HB 2	SSR	0	0		73,209
Community Technical Assistance Program (CTAP)	HB 2	Gen Fund	0	0	166,026	166,170
Modular Home Revolving Loan-Seed Money	HB 2	Gen Fund	0	0	3,000,000	0
Modular Home Revolving Loan-Spending Authority	HB 2	SSR	0	0	1,500,000	1,500,000
GRAND TOTAL			<u>\$10,673,264</u>	<u>\$13,066,033</u>	<u>\$22,399,030</u>	<u>\$18,103,390</u>
Total General Fund			\$5,940,145	\$7,550,489	\$14,632,315	\$10,008,926
Total State Special Revenue			4,733,119	5,515,544	7,766,715	8,094,464

**Program Proposed Budget**

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	24.16	5.50	1.00	30.66	6.00	1.00	31.16	31.16
Personal Services	1,222,526	427,771	40,188	1,690,485	450,631	40,226	1,713,383	3,403,868
Operating Expenses	1,268,663	2,578,311	45,469	3,892,443	2,403,965	45,526	3,718,154	7,610,597
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	4,124,259	6,690,906	2,000,000	12,815,165	4,676,121	0	8,800,380	21,615,545
<b>Total Costs</b>	<b>\$6,615,448</b>	<b>\$9,696,988</b>	<b>\$2,085,657</b>	<b>\$18,398,093</b>	<b>\$7,530,717</b>	<b>\$85,752</b>	<b>\$14,231,917</b>	<b>\$32,630,010</b>
General Fund	1,736,790	5,470,373	2,085,657	9,292,820	5,250,877	85,752	7,073,419	16,366,239
State/Other Special	138,229	2,176,463	0	2,314,692	2,248,389	0	2,386,618	4,701,310
Federal Special	4,740,429	2,050,152	0	6,790,581	31,451	0	4,771,880	11,562,461
<b>Total Funds</b>	<b>\$6,615,448</b>	<b>\$9,696,988</b>	<b>\$2,085,657</b>	<b>\$18,398,093</b>	<b>\$7,530,717</b>	<b>\$85,752</b>	<b>\$14,231,917</b>	<b>\$32,630,010</b>

**Program Description**

The Business Resources Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana's economic and business climate. Working closely with the private sector, the Governor's Office, the Legislature, economic and community development partners, other department divisions, state agencies, and federal and private programs, the division strives to enhance the economic base of Montana through business creation, expansion, and retention efforts.

Business Resources Division responsibilities are mandated primarily in Title 30, Chapter 16; Title 17, Chapter 6; and Title 90, Chapter 1 and 10, MCA.

**Program Highlights**

<b>Business Resources Division Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>◆ Governor continues or increases economic development programs funded by the 2005 Legislature</li> <li>◆ Total budget increases 146 percent in the 2009 biennium from the doubled FY 2006 base, due primarily to the continuation of the economic development programs</li> <li>◆ Governor recommends the Montana Capital Investment Board created by the 2005 Legislature be funded in the 2009 biennium</li> </ul>	
<b>Major LFD Issues</b>	
<ul style="list-style-type: none"> <li>◆ Many of the economic development programs lack specific and/or meaningful performance measures and milestones that will enable the legislature to evaluate the success of the program</li> </ul>	

**Funding**

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table							
Business Resources Divis							
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009	
01000 Total General Fund	\$ 1,736,790	26.3%	\$ 9,292,820	50.5%	\$ 7,073,419	49.7%	
01100 General Fund	1,736,790	26.3%	9,292,820	50.5%	7,073,419	49.7%	
02000 Total State Special Funds	138,229	2.1%	2,314,692	12.6%	2,386,618	16.8%	
02044 Sbir Ebscor	6,921	0.1%	10,000	0.1%	10,000	0.1%	
02090 Business Asst-Private	5,980	0.1%	75,000	0.4%	148,209	1.0%	
02210 Microbusiness Admin Acct	84,896	1.3%	179,692	1.0%	178,409	1.3%	
02212 Microbusiness Loan Acct	-	-	2,000,000	10.9%	2,000,000	14.1%	
02563 Nat'L Dev. Cncl Training Funds	33,990	0.5%	35,000	0.2%	35,000	0.2%	
02791 Sbir Private Funds	6,442	0.1%	15,000	0.1%	15,000	0.1%	
03000 Total Federal Special Funds	4,740,429	71.7%	6,790,581	36.9%	4,771,880	33.5%	
03059 Community Development Block	4,206,604	63.6%	6,232,128	33.9%	4,215,581	29.6%	
03061 Eda Revolving Loan Fund	12,030	0.2%	15,000	0.1%	15,000	0.1%	
03207 Small Business Dev. Centers	521,795	7.9%	543,453	3.0%	541,299	3.8%	
Grand Total	<u>\$ 6,615,448</u>	<u>100.0%</u>	<u>\$ 18,398,093</u>	<u>100.0%</u>	<u>\$ 14,231,917</u>	<u>100.0%</u>	

The overall budget for this division as proposed by the executive increases 146 percent in the 2009 biennium from the doubled FY 2006 base, reflecting the Governor's recommendation to continue funding for economic development programs that were funded with one-time-only appropriations by the 2005 Legislature. FY 2006 actual one-time-only appropriations are excluded from the base expenditures for biennial budget projections.

Base level, on-going functions funded in whole or in part by state general fund include:

- Census and Economic Information Center
- Regional Development Bureau
- Trade and international relations activities
- Entrepreneur Development Program /NxLevel
- Made in Montana program
- Match on federal funds for the administrative costs of the community development block grants and small business development centers

Proposed additional general fund appropriations for the 2009 biennium include:

- 1) Continue the New Worker Training program, but increase funding from \$2.8 million in the 2007 biennium to almost \$8.0 million in the 2009 biennium;
- 2) Continue the one-time-only appropriation for the revived Made in Montana program, \$200,000 in the 2009 biennium;
- 3) Switch the funding for the Main Street program from highway state special revenue to general fund , \$200,000 in the 2009 biennium;
- 4) Continue the Tribal Economic Development program, but increase funding from \$1.0 million in the 2007 biennium to \$1.6 million in the 2009 biennium;
- 5) A \$370,146 appropriation and 2.0 FTE to launch the Montana Capital Investment Board that was created, but not funded, in SB 133 by the 2005 Legislature;
- 6) Transfer the State Tribal Economic Development Commission from the Governor's Office to the department, at a biennial cost of \$171,409 and 1.0 FTE; and
- 7) A one-time-only biennial appropriation of \$2.0 million for grant funding to support innovative biomedical research in Montana.

State special revenue increases significantly as the executive includes \$2.0 million each year from the micro business loan account to record loans to qualifying micro businesses in Montana. No loans were made in the base year.



Community development block grants and Small Business Development Centers are primarily funded with federal funds, with state special revenue from private industry partners providing a portion of the funding. Federal special revenue increases \$2.0 million in FY 2008 to allow the department to record expenditure accruals for outstanding pre-2004 federal grant awards.

Since lodging facility use tax revenues are statutorily appropriated, this amount does not require legislative appropriation in HB 2 and as a result, does not appear in the funding tables. The Trade and International Relations program also receives funding from the Growth Through Agriculture program in the Department of Agriculture. The Agricultural Development Council determines the amount of grant funds to be transferred to the division, which has typically been \$90,000 per year for this purpose.

### Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2008-----						-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					247,397					252,031
Vacancy Savings					(58,799)					(58,982)
Inflation/Deflation					2,358					2,957
Fixed Costs					8,223					1,009
Total Statewide Present Law Adjustments					\$199,179					\$197,015
DP 5101 - BRD New Worker Training HB0002- OTO	2.00	3,997,361	0	0	3,997,361	2.00	3,997,450	0	0	3,997,450
DP 5103 - BRD Main Street HB0002- OTO	1.00	123,496	0	0	123,496	1.00	123,548	0	0	123,548
DP 5104 - BRD Made In Montana HB0002- OTO	0.00	100,000	0	0	100,000	0.00	100,000	0	0	100,000
DP 5105 - BRD Tribal Economic Development HB0002 - OTO	1.00	798,496	0	0	798,496	1.00	798,548	0	0	798,548
DP 5106 - BRD Montana Capital Investment Board HB0002- OTO	1.50	296,936	0	0	296,936	2.00	73,210	73,209	0	146,419
DP 5108 - BRD Federal Grants Adjustment HB0002- OTO	0.00	0	0	2,014,785	2,014,785	0.00	0	0	0	0
DP 5109 - BRD Administrative Costs Adjustments HB0002	0.00	71,547	2,083,310	11,878	2,166,735	0.00	72,448	2,083,409	11,880	2,167,737
Total Other Present Law Adjustments						6.00	\$5,165,204	\$2,156,618	\$11,880	\$7,333,702
Grand Total All Present Law Adjustments					\$9,696,988	\$7,530,717				

### LFD COMMENT

The annual statewide present law personal services adjustment is a 20 percent increase over the personal services base expenditures. About \$110,000 of the annual \$250,000 adjustment is attributable to annualizing the 2007 biennium pay increase and health insurance adjustments approved by the 2005 Legislature. The remaining increase is due to restoring the budget for base year vacancies.

DP 5101 - BRD New Worker Training HB0002- OTO - The executive budget continues the New Worker Training program funded by the 2005 Legislature and recommends increasing the funding to approximately \$8.0 million for the 2009 biennium. This program is intended to provide funding to meet the training needs of employees working in expanding primary sector industries in Montana.

*The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.*

**Justification:** Montana was one of the last states in the country to create a state funded workforce training program that trains workers for new jobs created by new or expanding businesses. There are a variety of tools that states use to attract new investment but the one found to be most in demand by private business looking to expand around the country is a State resource for training the new workers they will be hiring. This economic development tool is a catalyst for creating new, good jobs in Montana that pay benefits.

**Goals:** The goals of this proposal are to attract new investment in Montana leading to the creation of new jobs that pay a minimum of the state average wage or county average wage where the business is located.

#### Performance Measures

- Records of training provided and costs incurred in that training must be submitted to the Department of Commerce
- The business will submit status reports on project performance at the request of, and in the format prescribed by, the department. These reports include, but are not limited to:
  - Biannual progress reports providing evidence of total payroll and employment for statewide operations.
  - Project progress reports will be submitted with each request for funds describing the status of the project with respect to each implementation objective:
  - Names and current positions of employees being trained
  - Current salaries of trainees and any changes to salaries through the project
  - Summary of the training program and overall goal (certifications, skills, new positions to be filled by trainees, etc.) for each trainee
  - Summary of training accomplished for the period in which funds are being requested
  - Total cost and breakdown of costs for each employee for which funds are being requested
  - Amounts requested for each trainee and amount remaining of the \$5,000 ceiling after the request
  - Amount of matching funds expended to date
  - Total amount requested and total remaining under the contract
  - Any other pertinent information related to the grant and progress on the hiring and training plan
  -

**Milestones:** Since we have been operating the New Worker Training Program since the beginning of the 2007 biennium, the key activities of the program have already been completed. There is an application process and guidelines that have been developed. The Grant Review Committee has been established and has met on three occasions to adopt rules and to review and make grant awards. Contracts with current grantees are in place. We are continuing to work with potential applicants informing them that we are requesting additional funding for the program that would be available at the beginning of the new biennium.

**FTE:** The work is being performed by existing and new staff of the Department of Commerce.

**Funding:** The executive budget funds this decision package from the state general fund. The maximum grant award is \$5,000 for each new job. The business is required to provide a match of at least one dollar for every three dollars awarded.

**Obstacles:** The proposal has been implemented and is working well.

Risks: The risk to the state if the proposal is not adopted is that this tool will not be available to attract new business enterprises to Montana and the quality jobs that come with this new investment. The State will not see the economic progress that would have occurred by using this tool. The State of Montana will forego new general fund revenue in the form of taxes far in excess of the cost of the incentive. Montana workers will not receive training in new production methods on state of the art equipment and will not accrue skills that could benefit them throughout their working life.

**LFD  
COMMENT**

The legislature invested \$2.8 million in this program in the 2007 biennium and the Governor is recommending an additional \$8.0 million for the 2009 biennium. The legislature may wish to have information on the desired outcomes of the program before making the decision to invest additional funds. The performance measures and milestones presented by the agency emphasize department staff activities rather than evaluating goals of the program. The type of information that may be useful to the legislature, and is indirectly addressed in performance measures and risks in the above narrative, includes:

- How many new jobs will be created?
- What is the average wage per new job for each project grant?
- How much new investment (i.e. matching funds) resulted from the grants?
- What is the estimated additional local and state tax revenue generated from this program?
- How long will it take the state to recoup its investment via increased tax revenues?

The agency provided the following information with its budget request relating to this program. This information is also included on the department's website for its goals and objectives. It does indicate new jobs and new investment; wage and tax revenue is not reported.

Performance	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Job Creation	397	360	360	360	360
Job Training Funds	\$1,985,000	\$1,300,000	\$1,300,000	\$1,300,000	\$1,300,000
Total Project Investment	\$33,272,844	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000

**LFD  
COMMENT**

This decision package is a new proposal, not a present law adjustment. The program was funded via a one-time-only appropriation by the 2005 Legislature. State statute requires the executive to present program expansions it wants considered for funding in the new biennium as a new proposal to the next legislature rather than a present law adjustment.

DP 5103 - BRD Main Street HB0002- OTO - The executive budget recommends this program approved by the 2005 Legislature continue for the 2009 biennium. The 2005 Legislature funded the Main Street program using gas tax monies with a one time only appropriation in the last session. The executive budget proposes to switch the fund source to state general fund.

**LFD  
COMMENT**

HB 481 passed by the 2005 Legislature established the Main Street program in Montana. The legislation indicates the purpose of the program is to: a) assist communities in restoring and retaining the historic character of their downtown areas and historic commercial districts; b) stimulate business investment, retain business, and promote new business; c) strengthen the local tax base; d) create employment opportunities in downtown areas and historic districts; and e) generally enhance the economic viability of downtown areas and historic districts. The legislature may wish to request information from the executive branch on how it will evaluate progress towards meeting the goals, such as the number of new businesses in a designated main street program area, the occupancy rate of designated main street program areas, and changes in the local tax base.

The agency provided the following information with its budget request relating to this program. This information is also included on the department's website for its goals and objectives. The information does not provide the kind of information the legislature needs to evaluate the program's success. The legislature may also wish to ask the executive to present what they evaluated to determine the program was worth the continued investment.

Performance	FY 2006	Plan FY 2007	Plan FY 2008	Plan FY 2009
Designated Main Street Programs	6	8	10	12
Training & Workshops	6	14	16	16
Training Participants	100	150	205	225
Consulting Visits	3	14	18	20
General Info Sessions	3	15	15	15
Community Updates	6	28	36	36

**LFD  
COMMENT**

This decision package is a new proposal, not a present law adjustment. State statute requires the executive to present changes in funding as a new proposal to the next legislature rather than a present law adjustment.

DP 5104 - BRD Made In Montana HB0002- OTO - The executive budget includes \$100,000 general fund annually to continue the Made In Montana program funding initiative designated as one-time-only during the last legislative session. Part of the 2007 biennium appropriation is being used to provide support for the development of the aerospace and bioscience clusters in Montana. The funds are also being leveraged with the US Department of Commerce and the University of Montana to develop and deliver a pilot program of workshops and individual assistance to help Montana companies that sell the majority of their product outside the state of Montana with industrial marketing assistance. The executive budget proposes to continue both of these efforts in the 2009 biennium.

**LFD  
COMMENT**

This decision package is a new proposal, not a present law adjustment. The program was funded via a one-time-only appropriation by the 2005 Legislature. State statute requires the executive to present program expansions it wants considered for funding in the new biennium as a new proposal to the next legislature rather than a present law adjustment.

DP 5105 - BRD Tribal Economic Development HB0002 - OTO - The executive budget recommends this program continue and funding increase to approximately \$1.6 million general fund for the 2009 biennium. The 59th Legislature appropriated \$1.0 million general fund for the 2007 biennium to support tribal business development projects, workforce training projects, entrepreneurial training, feasibility studies and other types of Indian economic development activities and projects.

*The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.*

**Justification:** One of the greatest economic development challenges that Montana faces is capitalizing on or creating opportunities for job creation and economic prosperity on Montana's Indian Reservations and with non-reservation Indians.

According to the 2000 census, there were 65,945 self identified American Indians in Montana, or about 7.3 percent of the total population. The median household income for American Indians was \$22,824, more than ten thousand less than the \$33,024 reported for all Montanan households. Based upon the methodology used, the unemployment rate for reservations in Montana has historically ranged from 15 percent to 30 percent; using the Bureau of Labor Statistics methodology, and from 25 percent to 75 percent using Bureau of Indian Affairs methodology. Whichever methodology is used, these rates are significantly higher than the rest of the state where the current statewide unemployment rate is below 5 percent.

**Goals:** The goals of this proposal are to fund projects identified by the Tribal governments that meet one or several of the application criteria and, to fund other activities that will have an impact on the prosperity of Indians involved in those projects across the state of Montana. In this way, we will be able to help individuals get hired into permanent full-time jobs, start their own businesses, and improve their economic circumstances.

**Performance Measures:** The Department of Commerce will use performance measures for each individual project funded that duplicate the kind of information we typically develop for other economic development projects and activities. These will include:

- Jobs created and retained
- New business created or retained
- Wages paid for jobs created and retained
- Other funds leveraged with State funds including private equity, loans, and local, state, and federal funds.

**Milestones:** Each project funded will have a separate completion timeline depending upon the nature of the project. As an example, the Rocky Boy Reservations applied for and was awarded money to help produce a feasibility study for an ethanol plant. The feasibility study itself would be one of the milestones for the project but our hope is that the study leads to investment and the creation of an ethanol plant employing Indian residents in good paying jobs and, providing farmers with a market for higher value oil seed crops.

**FTE:** Staff at the Department of Commerce have already designed and implemented the application and proposal review process. Each of the Tribal governments has applied for funding from the department. Staff in the Department of Commerce have initiated and completed contracts with each of the Tribal governments. We are currently in the process of receiving applications for FY 2007.

**Funding:** The 2005 Legislature appropriated general fund for the one-time-only appropriation for this program and the executive budget recommends general fund for the 2009 biennium.

**Obstacles:** The proposal has been implemented and we found no significant challenges in doing so. The greatest challenge of all is for the Tribal governments to identify projects that will be successful and result in new, good businesses and jobs for Tribal citizens.

**Risks:** The risk to the state of Montana in not adopting the proposal is that the economies on Montana's Indian reservations to a greater or lesser degree will continue to lag far behind the rest of the Montana economy. The economic status quo continues to result in high poverty rates and all of the social consequences that come with that condition.

**LFD  
COMMENT**

The goal of this program appears to be to improve economic conditions on Montana's Indian reservations. The funds are distributed to Tribal governments that identify projects with good success potential. The performance measures do not identify benchmarks to evaluate success, and the milestones are not specific enough to ensure accountability. Before committing additional funds to this program, the legislature may wish to require more specific performance measures and milestones in order to evaluate the success of this program in the future.

In addition, this program was funded in the 2007 biennium with a \$1.0 million general fund, biennial, one-time-only appropriation of which \$490,979 was expended in FY 2006. Given that the executive has some history with this initiative, the legislature may wish to ask the executive to present what they evaluated to determine the program was worth not only continued investment, but also increased investment in the 2009 biennium.

**LFD  
COMMENT**

This decision package is a new proposal, not a present law adjustment. State statute requires the executive to present program expansions as a new proposal to the next legislature rather than a present law adjustment.

DP 5106 - BRD Montana Capital Investment Board HB0002- OTO - The executive budget funds the State Capital Investment Board that was created in SB 133 by the 2005 Legislature. SB 133 gave the board authority to provide contingent, deferred tax credits to enable a funds manager to promote equity capital investments in Montana companies. The executive budget funds the program for the first 18 months of the 2009 biennium from general fund and the last six months from state special revenue generated from fees allowed in SB 133. In FY 2006, \$150,000 is budgeted for anticipated legal costs.

**LFD  
COMMENT**

The 2005 Legislature did not appropriate additional funds to implement this bill so there is no history upon which to evaluate the success or failure of this program. The legislature may wish to query the department on how they would plan to evaluate success or failure in the 2009 biennium.

DP 5108 - BRD Federal Grants Adjustment HB0002- OTO - - The executive budget includes a one-time-only federal special appropriation in the amount of \$2,014,785 for FY 2008 only to allow the department to record an accrual for pre-FY 2004 outstanding federal grant awards.

**LFD  
ISSUE**

Refer to the FY 2008 OTO Federal Funds Adjustment Requests issue in the agency summary section of this budget analysis.

DP 5109 - BRD Administrative Costs Adjustments HB0002 - The executive budget recommends increases in general fund, state special revenue, and federal special revenue for the following administrative cost adjustments:

- Restore per diem and increase travel for the Economic Development Advisory Council of \$7,618 per year
- Operating increases (supplies, communications, training, and travel) for the Small Business Development Center program, \$13,764 per year
- Increased technical assistance costs and employee training for the Micro Business Finance program, \$75,000 per year
- Increased travel and training costs for the Census and Economic Information Center staff to prepare for the decennial census, \$5,000 per year
- Increased rent and indirect costs, \$63,806 in FY 2008 and \$64,808 in FY 2009

In addition, the executive includes \$2.0 million state special revenue appropriation authority each year to record loans to certified micro business development corporations on the state accounting system.

**New Proposals**

New Proposals										
-----Fiscal 2008-----						-----Fiscal 2009-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5111 - Tribal Economic Development Commission - HB0002 (Requires Legislation)										
51	1.00	85,657	0	0	85,657	1.00	85,752	0	0	85,752
DP 5112 - BRD - Biomedical Research Grant - Bien/OTO										
51	0.00	2,000,000	0	0	2,000,000	0.00	0	0	0	0
Total	1.00	\$2,085,657	\$0	\$0	\$2,085,657	1.00	\$85,752	\$0	\$0	\$85,752

DP 5111 - Tribal Economic Development Commission - HB0002 (Requires Legislation) - The executive recommends transferring the Tribal Economic Development Commission from the Governor's Office to the Department of Commerce. One FTE and approximately \$86,000 general fund would be added to the Business Resources Division beginning in FY 2008.

**LFD COMMENT**

Section 90-1-131, MCA establishes this commission and attaches it to the Governor's Office. Moving it to the Department of Commerce would require a statutory change.

**LFD ISSUE**

Other funds may be available to fund costs of this program

When this commission was first created in FY 1999, the legislature authorized the transfer of \$200,000 general fund into the newly created State Tribal Economic Development state special revenue account. Since then, the costs of the commission have been paid from this account and the original \$200,000 appropriation. In FY 2006, \$27,236 was expended for commission expenses. Section 90-1-135, MCA requires that money remaining in the account be used for the commission. As of the end of November 2006, there was \$78,000 remaining in the account.

The executive is recommending general fund for this program for the 2009 biennium. The legislature may wish to exhaust the funds in the state special revenue account prior to using general fund.

DP 5112 - BRD - Biomedical Research Grant - Bien/OTO - The executive budget recommends a one-time-only, biennial \$2.0 million general fund appropriation for a grant to support innovative biomedical research in Montana. The grant would be used to expand, renovate, and purchase equipment for biomedical research and to expand infrastructure that will enhance the scientific collaborations between independent non-profit researchers and researchers in the Montana University System. Funds would be used by the grantee to leverage additional private or federal funds.

**LFD COMMENT**

The executive proposal lacks sufficient information for the legislature to evaluate the proposed investment or any continued investment that may be requested in future years. Before committing funds for this project, the legislature may want to obtain and evaluate additional information, such as:

- What is the goal of this investment, and how does it fit into the department's overall mission?
- What performance measures is the executive recommending to evaluate progress towards the goal? Are the performance measures meaningful?
- Who will monitor performance?
- What overall benefit to the taxpayers is inherent in this proposal that it justifies the expenditure of general fund?

**Program Proposed Budget**

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	491,824	277,771	0	769,595	258,176	0	750,000	1,519,595
<b>Total Costs</b>	<b>\$491,824</b>	<b>\$277,771</b>	<b>\$0</b>	<b>\$769,595</b>	<b>\$258,176</b>	<b>\$0</b>	<b>\$750,000</b>	<b>\$1,519,595</b>
State/Other Special	491,824	277,771	0	769,595	258,176	0	750,000	1,519,595
<b>Total Funds</b>	<b>\$491,824</b>	<b>\$277,771</b>	<b>\$0</b>	<b>\$769,595</b>	<b>\$258,176</b>	<b>\$0</b>	<b>\$750,000</b>	<b>\$1,519,595</b>

### Program Description

The Montana Promotion Division strives to strengthen Montana's economy through increased visitor travel, visitor expenditures, and film production in the state. The division works to project a positive image of the state through consumer advertising, electronic marketing, publicity, international and domestic group travel marketing, printing and distribution of literature, assisting in the development of tourism infrastructure, and marketing to motion picture and television production companies. The division provides training and assistance to the Montana tourism industry, administers, and distributes infrastructure grants, and oversees expenditures of six regional non-profit corporations and the eleven qualified convention and visitors bureaus.

Montana Promotion Division responsibilities are outlined in Title 15, Chapter 65, and Title 2, Chapter 15, MCA.

### Program Highlights

Montana Promotion Division Major Budget Highlights	
♦	Lodging facility use tax, which is statutorily appropriated, is estimated to increase 5.2 percent per year in the 2009 biennium
♦	Private funds budgeted in HB 2 increase over 50 percent annually and increases spending authority to \$750,000 annually
Major LFD Issues	
♦	None

### Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Montana Promotion Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 491,824	100.0%	\$ 769,595	100.0%	\$ 750,000	100.0%
02116 Accommodation Tax Account	1,064	0.2%	19,595	2.5%	-	-
02154 Mt Promotion-Private	490,760	99.8%	750,000	97.5%	750,000	100.0%
<b>Grand Total</b>	<b>\$ 491,824</b>	<b>100.0%</b>	<b>\$ 769,595</b>	<b>100.0%</b>	<b>\$ 750,000</b>	<b>100.0%</b>

The Montana Promotion Division is funded by state special revenues, primarily derived from 67.5 percent of the four percent Montana lodging facility use tax "remaining after statutory deductions" and from private funds. The private funds appropriated in HB 2 and shown in the table above fund numerous private organizations throughout Montana that produce and distribute cooperative advertising and joint promotional activities. This public/private partnership is funded cooperatively with the state and typically receives funding from private partners to develop and distribute targeted marketing efforts. Legislative audit costs are funded in HB 2 from the bed tax. The department's and the regional



tourism corporations' portion distributed via the Department of Commerce is estimated by the Revenue and Transportation Committee to be approximately \$14.7 million in FY 2008 and \$15.5 million in FY 2009. These funds are statutorily appropriated and do not appear in the table.

#### *History*

Montana has a seven percent tax on lodging facilities in the state. The total tax is divided into two parts:

- The 1987 Legislature enacted a four percent lodging facility use tax. This tax equals four percent of the rate charged on accommodations and is collected from customers of the facility upon payment. The tax can only be based on the fees charged for lodging and cannot include the costs for meals, transportation, entertainment, or any other similar charges. The revenues are distributed as discussed below.
- The 2003 Legislature enacted a three percent lodging sales & use tax. This tax, imposed for the "privilege of using property or services within this state", is equal to three percent of the rate charged on accommodations. All revenues are deposited to the general fund.

Pursuant to the statement of intent provided by the legislature when it enacted the four percent lodging facility use tax, all proceeds are to be dedicated to the promotion of Montana's travel and tourism industries. Of the total collections, \$400,000 is allocated to the Montana heritage preservation and development account for the purpose of purchasing, restoring, and maintaining historically significant properties in Montana that are in need of preservation. This \$400,000 allocation expires June 30, 2007, barring any legislation that removes or extends this statutory sunset. Additionally, state funds are reimbursed for any lodging facility use tax paid by state employees while on official business, and the Department of Revenue is allowed to keep an amount based on costs of collecting and disbursing the proceeds from the tax (approximately one percent of collections). The remaining tax proceeds are statutorily allocated as follows:

- 67.5 percent to the Department of Commerce
- 22.5 percent to be distributed by the Department of Commerce to regional nonprofit tourism corporations as defined in 15-65-101(6), MCA
- 6.5 percent to the Department of Fish, Wildlife, and Parks for maintenance of facilities in state parts that have both resident and nonresident use
- 2.5 percent to the Commissioner of Higher Education for operation of the Institute for Tourism and Recreation Research at the University of Montana
- 1 percent to the Montana Historical Society to be used for the installation or maintenance of roadside historical signs and historic sites

The 67.5 percent allocation from the statutory appropriation is used by the department to operate the Montana Promotion Division. The division uses this funding in addition to the state special revenue appropriated in HB 2 to promote the travel and tourism industry in Montana. For FY 2007, the Montana Promotion Division has allocated the lodging facility use tax for the following purposes:

- 35 percent for consumer marketing
- 13 percent for tourism development and superhost
- 9 percent for telemarketing and fulfillment
- 9 percent for publications
- 7.5 percent for general administration and industry services
- 7 percent for group conventions and overseas marketing
- 6.5 percent for electronic services
- 6 percent for publicity
- 5 percent for film industry promotion
- 2 percent for visitor information centers

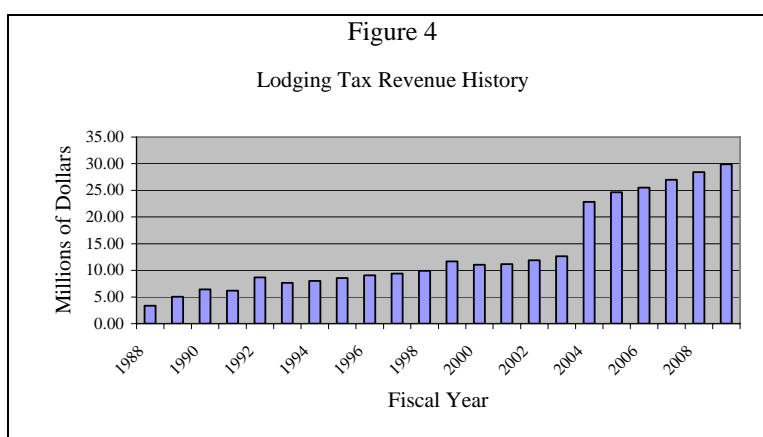
#### *Collection and Distribution*

Figure 2 below shows lodging tax collections since the inception of the lodging facility use tax in FY 1988.

Figure 3  
Lodging Taxes Distribution  
Fiscal 2005 - Fiscal 2009

Distribution Basis	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Total Lodging Tax Revenue (Net of state agency refunds)	\$24,636,260	\$25,519,386	\$26,979,000	\$28,393,000	\$29,881,000
Department of Revenue (Administration costs)	\$141,371	\$29,122	\$149,981	\$149,107	\$154,480
General Fund 100% of Lodging Sales Tax	10,200,914	10,679,216	11,290,000	11,881,000	12,504,000
MT Heritage Preservation & Development Fixed	400,000	400,000	400,000	0	0
Net Facility Use Tax for Distribution	\$13,893,975	\$14,411,048	\$15,139,019	\$16,362,893	\$17,222,520
Historical Society 1% of net	\$138,940	\$144,110	\$151,000	\$164,000	\$172,000
Higher Education 2.5% of net	347,349	360,276	378,000	409,000	431,000
Fish, Wildlife, & Parks 6.5% of net	903,108	936,718	984,000	1,064,000	1,119,000
Department of Commerce For Department Use 67.5% of net	9,378,433	9,727,457	10,219,000	11,045,000	11,625,000
For Distribution to Regions and Cities 22.5% of net	3,126,144	3,242,486	3,406,000	3,682,000	3,875,000

Additionally, Figure 4 shows the actual and estimated lodging tax distribution from FY 2005 to FY 2009.



For several biennia the legislature has included language in HB 2 directing the Department of Commerce to use a portion of the department's lodging facility use tax allocation for programs in the Montana Historical Society. The executive proposes similar language for the 2009 biennium but reduces the recommended amount from \$1.24 million in the 2007 biennium to \$0.91 million for the 2009 biennium. See the LFD Issue in Volume 7, Section E – Education under the Montana Historical Society for a discussion of this transfer.

### Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2008-----						-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Fixed Costs					18,531					(1,064)
<b>Total Statewide Present Law Adjustments</b>					<b>\$18,531</b>					<b>(\$1,064)</b>
DP 5201 - MPD Private Funds & Audit Adjustments HB0002	0.00	0	259,240	0	259,240	0.00	0	259,240	0	259,240
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$259,240</b>	<b>\$0</b>	<b>\$259,240</b>	<b>0.00</b>	<b>\$0</b>	<b>\$259,240</b>	<b>\$0</b>	<b>\$259,240</b>
Grand Total All Present Law Adjustments					\$277,771					\$258,176

DP 5201 - MPD Private Funds & Audit Adjustments HB0002 - The executive budget adds \$259,240 state special revenue authority each year of the 2009 biennium to increase the program's private funds account to \$750,000 annually. In addition, the executive includes \$18,531 additional bed tax revenue to fund the division's share of legislative audit costs.

**LFD  
COMMENT**

Private funds from cooperative marketing agreements deposited to the Montana promotion division private state special revenue fund totaled \$490,087 in FY 2006. The private revenue has not exceeded \$600,000 since FY 2002 and has averaged \$537,710 for the last five years. If the legislature approves the executive budget request, it may wish to establish a restricted appropriation for these private funds so unused authority, if any, reverts at the end of the year.

**Program Proposed Budget**

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	13.00	0.00	2.00	15.00	0.00	2.00	15.00	15.00
Personal Services	671,499	36,697	108,646	816,842	38,756	108,790	819,045	1,635,887
Operating Expenses	440,619	110,525	57,380	608,524	103,926	57,380	601,925	1,210,449
Equipment	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	6,615,355	10,702,227	0	17,317,582	(137,660)	0	6,477,695	23,795,277
<b>Total Costs</b>	<b>\$7,727,473</b>	<b>\$10,849,449</b>	<b>\$166,026</b>	<b>\$18,742,948</b>	<b>\$5,022</b>	<b>\$166,170</b>	<b>\$7,898,665</b>	<b>\$26,641,613</b>
General Fund	224,022	28,204	166,026	418,252	26,261	166,170	416,453	834,705
State/Other Special	1,262,408	1,994,137	0	3,256,545	(6,012)	0	1,256,396	4,512,941
Federal Special	6,241,043	8,827,108	0	15,068,151	(15,227)	0	6,225,816	21,293,967
<b>Total Funds</b>	<b>\$7,727,473</b>	<b>\$10,849,449</b>	<b>\$166,026</b>	<b>\$18,742,948</b>	<b>\$5,022</b>	<b>\$166,170</b>	<b>\$7,898,665</b>	<b>\$26,641,613</b>

**Program Description**

The Community Development Division works with federal, state, and local governments, private non-profit organizations, and private citizens, in regard to community planning and needs identification, planning and financing for the construction of public facilities, housing development for low and moderate income families, neighborhood revitalization, and coal and hard rock mining mitigation, as well as management of projects funded through division programs.

There are two major programs directly administered by the division: The Community Development Block Grant Program (CDBG), and the Treasure State Endowment Program (TSEP). The Montana Coal Board and the Montana Hard Rock Mining Impact Board are also attached to the Community Development Division for administrative purposes. The division provides office facilities and necessary staff and administrative support for the boards.

These four programs provide both financial and technical assistance to Montana communities, local elected officials and staff, nonprofit organizations, private sector developers and consultants, state and federally-recognized Indian Tribes, and private citizens. Other assisted entities include local planning boards and zoning commissions, community development corporations, human resource development councils, water and sewer districts, fire departments, and housing authorities.

The Community Development Division's responsibilities are primarily mandated in Title 90, Chapter 1 and Chapter 6, MCA; and federal authorizations 24 CFR 570, subpart 1; and 42 USC 5301.

**Program Highlights**

Community Development Division	
Major Budget Highlights	
♦	Executive increases the overall budget 72 percent in the 2009 biennium from the doubled FY 2006 base year
•	The Governor proposes to revive the Community Technical Assistance Program at a biennial general fund cost of \$332,196
•	Increased state special revenue authority for Coal Board and Hard Rock Mining Impact grants adds \$1.7 million in the 2009 biennium
•	OTO \$8.8 million federal appropriation in FY 2008 would allow the department to record an expenditure accrual for pre-2004 outstanding federal community development block grant funds

### Major LFD Issues

- ◆ The legislature may wish to restrict hard rock mining impact trust fund appropriations due to statutory restrictions and uncertain revenues

### Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Community Development Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 224,022	2.9%	\$ 418,252	2.2%	\$ 416,453	5.3%
01100 General Fund	224,022	2.9%	418,252	2.2%	416,453	5.3%
02000 Total State Special Funds	1,262,408	16.3%	3,256,545	17.4%	1,256,396	15.9%
02049 Hard Rock Mining	237,277	3.1%	644,611	3.4%	644,445	8.2%
02270 Treasure State Endowment	510,090	6.6%	525,233	2.8%	525,608	6.7%
02511 Coal Board Account	515,041	6.7%	2,086,701	11.1%	86,343	1.1%
03000 Total Federal Special Funds	6,241,043	80.8%	15,068,151	80.4%	6,225,816	78.8%
03059 Community Development Block	6,241,043	80.8%	15,068,151	80.4%	6,225,816	78.8%
Grand Total	<u>\$ 7,727,473</u>	<u>100.0%</u>	<u>\$ 18,742,948</u>	<u>100.0%</u>	<u>\$ 7,898,665</u>	<u>100.0%</u>

The total budget for this division increases 72 percent in the 2009 biennium from the doubled FY 2006 base. The executive budget provides an 87 percent increase in general fund from FY 2006 to FY 2008 stemming from the executive recommendation to restore the Community Technical Assistance Program in the 2009 biennium and fund it from the general fund. The base amount of general fund in this division provides a required match for a portion of the administrative costs of the Community Development Block Grant program.

The executive budget funds the Coal Board from the oil, gas, and coal natural resource account established by the 2005 Legislature through HB 758. This account receives revenue from a 2.9 percent allocation from the coal severance tax and an allocation from oil and gas production taxes. State law directs how the oil and gas production taxes may be spent (the Department of Revenue distributes these taxes to the counties), but there is no statutory restriction on how the 2.9 percent allocation from the coal severance tax may be spent. In the 2007 biennium, the legislature appropriated these funds to the Coal Board. FY 2006 actual expenditures totaled \$535,000. For the 2009 biennium, the interim Revenue and Transportation Committee estimates the coal severance tax revenue to this account will total \$2.14 million and the executive recommends the Coal Board budget total \$2.17 million.

The Hard-Rock Mining Impact Board is funded by a 2.5 percent allocation of the Metalliferous Mines License Tax. Revenue to this account is projected to total \$0.81 million for the 2009 biennium, an approximate 15 percent increase from the 2007 biennium.

The Treasure State Endowment Program is funded by interest earnings from the treasure state endowment fund, a sub-fund within the coal tax trust fund. Fifty percent of the coal severance taxes that go into the coal tax trust fund are to be transferred to the treasure state endowment fund for a 23-year period, which began in 1993.

Federal special revenue includes the community development block grant funds. The large increase between FY 2006 and FY 2008 is attributable to the executive recommendation to allow the agency to accrue pre-2004 outstanding grant funds. See DP 6002 for more information.

### Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008					Fiscal 2009					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				64,230						66,370
Vacancy Savings				(29,433)						(29,514)
Inflation/Deflation				1,750						1,882
Fixed Costs				957						(5,600)
<b>Total Statewide Present Law Adjustments</b>				<b>\$37,504</b>						<b>\$33,138</b>
DP 6002 - CDD CDBG Federal Grants Adjustment HB0002										
0.00	0	0	8,839,887	8,839,887	0.00	0	0	0	0	0
DP 6004 - CDD Administrative Costs Adjustments HB0002										
0.00	1,412	1,969,234	1,412	1,972,058	0.00	1,351	(30,817)	1,350	(28,116)	
<b>Total Other Present Law Adjustments</b>										
<b>0.00</b>	<b>\$1,412</b>	<b>\$1,969,234</b>	<b>\$8,841,299</b>	<b>\$10,811,945</b>	<b>0.00</b>	<b>\$1,351</b>	<b>(\$30,817)</b>	<b>\$1,350</b>	<b>(\$28,116)</b>	
Grand Total All Present Law Adjustments				\$10,849,449						\$5,022

DP 6002 - CDD CDBG Federal Grants Adjustment HB0002 - The executive budget recommends a one-time-only federal special revenue appropriation for \$8,839,887 in FY 2008 only, to allow the department to record an expenditure accrual for pre-2004 outstanding federal grant awards.

**LFD  
ISSUE**

Refer to the FY 2008 OTO Federal Funds Adjustment Requests issue in the agency summary section of this budget analysis.

DP 6004 - CDD Administrative Costs Adjustments HB0002 - The executive budget includes the following adjustments:

- 1) Per diem for the Coal Board and the Hard Rock Mining Impact Board -- \$3,600 for the biennium;
- 2) Maintenance of the hard rock mining impact account reserve as required by Section 90-6-304(2), MCA -- \$200,000 for the biennium;
- 3) Increased local grants from Coal Board and Hard Rock Mining Impact Board funds -- \$1.72 million for the biennium; and
- 4) Increased rent; and indirect costs paid to the Director's Office/Management Services Division for support services provided to supported Divisions, Bureaus, and Programs -- \$15,462 for the biennium.

**LFD  
ISSUE**

Section 90-6-304(2), MCA requires the department maintain a \$100,000 reserve in the hard rock mining impact trust account. The reserve may be used only for board expenses under certain conditions listed in statute. The legislature may want to consider restricting the appropriation for uses specified in statute.

**LFD  
COMMENT**

The executive budget recommends \$300,000 additional state special revenue each year for anticipated increases in hard rock mining impact funds distributed to local governments. The distribution to local governments for the last five years is listed below:

- FY 2002 - \$16,916
- FY 2003 - \$18,248
- FY 2004 - \$39,356
- FY 2005 - \$148,171
- FY 2006 - \$168,861

The amount of this recommendation is an estimate only. In addition, the official revenue estimates adopted by the Revenue and Taxation Committee indicate the revenue to the hard rock mining impact trust account may be less than the amount allocated in the executive budget. The legislature may wish to consider restricting the appropriation authority for local grants. This would allow the department to have the grant authority available for local grants if needed and would also prevent the authority from being transferred to other programs and used for other purposes.

**New Proposals**

New Proposals										
-----Fiscal 2008-----						-----Fiscal 2009-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6001 - CDD Community Technical Assistance Program HB0002										
60	2.00	166,026	0	0	166,026	2.00	166,170	0	0	166,170
Total	2.00	\$166,026	\$0	\$0	\$166,026	2.00	\$166,170	\$0	\$0	\$166,170

DP 6001 - CDD Community Technical Assistance Program HB0002 - The executive budget recommends restoration of the Community Technical Assistance Program (CTAP) at a biennial general fund cost of \$332,196. This funding would be used to hire two FTE to provide technical assistance and training in growth policies, subdivision laws, subdivision review, zoning laws, and zoning administration to local government elected officials, citizen planning board members, zoning commissions, land developers, and engineers.

*The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.*

Justification: State law (90-1-103, MCA) requires the department cooperate with and provide technical assistance to county, municipal, state, and regional planning commissions, zoning commissions, parks or recreation boards, community development groups, community action agencies, and similar agencies created for the purposes of aiding and encouraging orderly, productive, and coordinated development of the communities of the state.

The 2003 Legislature eliminated the department's CTAP. The period from July 1, 2003 to-date is the only time since the mid-1950's that the state has not provided some level of technical assistance to counties, cities, and towns with community planning and land use regulation issues.

Many of Montana's local governments face serious problems due to rapid growth and development. Local governments must deal with continual turn over in local officials, planning staff, and planning board members and there is a need for on-going training and education to help local governments deal with the difficulties involved in preparing mandated growth policies and in administering a complex state subdivision law and local subdivision regulations, as well as local zoning regulations.

Goal: Re-establish the former Community Technical Assistance Program to provide technical assistance and training to

local governments and their planning boards and zoning commissions, private sector developers, engineers, and consultants to encourage the development of well planned and attractive communities to support the state's economic development and community development efforts.

**Performance Criteria:** If a community planning assistance program were re-established, training and technical assistance would be provided primarily by telephone and internet communication, periodic regional workshops, by maintaining a library of sample growth policies and land use regulations available for loan or downloading via the Internet, and by preparing handbooks, model regulations, and reference materials that could be downloaded from the department's website. The Department of Commerce has an inventory of previously prepared technical assistance publications that need to be updated to reflect changes in state law and current community planning best practices. Progress would be measured by the number of inquiries responded to, publications updated or prepared, workshops held, etc.

Currently, Montana has several state agencies and private organizations independently provide training and technical assistance to local governments related to community development, planning, and land use regulation, without coordination with each other. The re-established CTAP would propose to establish a working group, comprised of state and federal agencies and private non-profit organizations, to help coordinate technical assistance to local governments.

**Milestones:** Some of the key activities would have specific time-frames for completion, such as updating existing technical assistance handbooks, model regulations, and reference materials to reflect current state law and best practices. These would be scheduled for completion based on priorities set by the CTAP staff, in consultation with the Montana Association of Counties and the League of Cities and Towns.

Many of the other activities would be on-going functions of CTAP such as providing technical assistance by telephone and internet communication, periodic regional training workshops, and maintaining a library of sample growth policies and land use regulations available for loan.

**FTE Requirements:** The work would be performed by two new FTEs: an attorney and a senior planner.

**Funding:** Funding would be provided by state general fund.

**Obstacles:** One challenge would be to recruit qualified, experience staff under the state pay plan. Experienced local planners currently receive premium salaries in today's job market. However, re-establishing CTAP should be somewhat easier because several staff in the Community Development Division worked either formerly as local planners or as CTAP staff or both.

**Risks:** If CTAP is not re-established, local governments and the private development community (surveyors, engineers, and realtors) will continue to encounter confusion and delay due to misunderstandings about the state subdivision law and local subdivision regulations. Local governments and their planning staff and planning boards will continue to have misunderstandings and confusion regarding implementation of the state growth policy law and Montana zoning laws. Compliance with these laws and regulations is particularly difficult for local governments without any experienced professional staff to turn to.

**LFD  
COMMENT**

The underlying policy goal of this proposal is the development of well planned and attractive communities to support the state's economic development and community development efforts. The performance criteria proposed in the executive budget addresses staff activities rather than criteria the legislature can use to evaluate whether the policy goal is being achieved. The legislature may want to ask the department to identify and use performance measures that would more meaningfully evaluate progress towards the policy goal, such as compliance with subdivision, zoning, and growth policy statutes. The risk statement implies there may be instances of non-compliance with the law due to confusion, etc. The legislature may wish to ask the department to demonstrate there have been instances of non-compliance before deciding on this decision package.



**Proprietary Rates****Program Description**

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers. Cost savings are shared with consumers in the form of lower fees.

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

Customers include health care and related facilities, entities serving persons with development and/or mental disabilities, and prerelease/methamphetamine treatment centers.

There has not been any significant program, service, or customer base change since the last session.

The authority is primarily mandated in Title 90, Chapter 7 and Title 2, Chapter 15, MCA.

*Mission:*

To develop and maintain statewide financing programs which provide for and maintain access to the broadest range of low-cost capital financings as possible for eligible non-profit private and public institutions, which will promote affordable access to and availability of services for the consumer.

*Goals and Objectives:*

- To maintain and improve current financing programs while developing new funding options.
- To develop and implement effective financing plans for under served borrowers by pursuing financing options for critical access Hospitals and “bank eligibility.”
- To promote a greater understanding and utilization of the authority financing programs by participating in, sponsoring and speaking at conferences and disseminating information to clients and new administrators.
- To provide resources for the advancement of tax-exempt financing on a national level by serving on committees of national organizations and meeting with congressional representatives.

**Revenue Description:**

The Facility Finance Authority is funded entirely by enterprise proprietary funds with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The authority has gradually reduced its application and annual administrative fee assessments contingent upon its business volume. Customer volume is assumed to be at the current level throughout the 2009 biennium.

**Expense Description:**

The major cost drivers within the Facilities Finance Authority are personal services, operating expenses, grants, and expenditures related to the periodic replacement of computer equipment.

Non-typical and one time only expenses, if any, are subtracted from any proposed budgets. Personal services expenditures fund 2.00 FTE and board member per diem.

**Working Capital Discussion:**

The 60 day working capital calculation is not reasonably applicable to the authority because national bond rating agencies, national bond insurers, and institutional investors expect the authority to reserve two years operating capital (approximately \$664,678) to assure that the authority can financially operate between legislative sessions.

**Fund Equity and Reserved Fund Balance:**

The total fund equity requirement for the 2009 biennium (\$6,000,000) is derived from the following authority program reserve mandates:

3. Biennium Working Capital Reserve; \$664,678
4. Capital Reserve Account (Loan Loss Reserve); \$4,723,031
5. Facility Direct Loan Program Reserve; \$1,033,100

**Proprietary Rate Explanation**

The Facilities Finance Authority is funded by two enterprise funds with revenues derived from interest, fees, and charges from participating institutions. The legislature does not approve rates for this program and there are no direct appropriations provided in HB 2. Facility Finance Authority customers are outside of state government. The fee structure that is proposed does not materially vary from that proposed in the last session.

## 2009 Biennium Report on Internal Service and Enterprise Funds 2009

Fund	Fund Name	Agency #	Agency Name	Program Name				
6012	HFA Loan Program	65010	Dept. of Commerce	Facility Finance Authority				
6015	Facilities Finance Authority							
			Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
<b>Operating Revenues:</b>								
Fee revenue								
	Administrative Fees		311,840	280,199	443,876	326,000	345,000	340,000
	Investment Earnings		40,092	62,299	103,475	50,000	135,000	135,000
	Securities Lending Income		-	-	1,430	-	-	-
	Premiums		-	-	-	-	-	-
	Other Operating Revenues		-	-	-	-	-	-
	Total Operating Revenue		351,932	342,498	548,781	376,000	480,000	475,000
<b>Operating Expenses:</b>								
	Personal Services		153,557	149,249	162,582	140,816	153,915	155,340
	Other Operating Expenses		118,538	127,148	160,863	149,810	182,922	172,501
	Total Operating Expenses		272,095	276,397	323,445	290,626	336,837	327,841
	Operating Income (Loss)		79,837	66,101	225,336	85,374	143,163	147,159
<b>Nonoperating Revenues (Expenses):</b>								
	Gain (Loss) Sale of Fixed Assets		-	-	-	-	-	-
	Federal Indirect Cost Recoveries		-	-	-	-	-	-
	Other Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	Net Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	Income (Loss) Before Operating Transfers		79,837	66,101	225,336	85,374	143,163	147,159
	Contributed Capital		-	-	-	-	-	-
	Operating Transfers In (Note 13)		-	-	200,000	-	-	-
	Operating Transfers Out (Note 13)		-	-	(200,000)	-	-	-
	Change in net assets		79,837	66,101	225,336	85,374	143,163	147,159
	Total Net Assets- July 1 - As Restated		2,338,258	2,418,095	2,484,196	2,709,532	2,794,906	2,938,069
	Prior Period Adjustments		-	-	-	-	-	-
	Cumulative effect of account change		-	-	-	-	-	-
	Total Net Assets - July 1 - As Restated		2,338,258	2,418,095	2,484,196	2,709,532	2,794,906	2,938,069
	Net Assets- June 30		2,418,095	2,484,196	2,709,532	2,794,906	2,938,069	3,085,228
60 days of expenses								
	(Total Operating Expenses divided by 6)		45,349	46,066	53,908	48,438	56,140	54,640
Requested Rates for Enterprise Funds								
Fee/Rate Information								
Application Fee:								
	Loan Amount		Fee					
	Up to \$5,000,000		30 basis points (bp) (.0030)					
	Up to \$10,000,000		the > of 25 bp or \$ 15,000					
	Up to \$25,000,000		the > of 15 bp or \$ 25,000					
	Up to \$50,000,000		the > of 12.5 bp or \$ 37,500					
	Up to \$100,000,000		the > of 7.5 bp or \$ 62,500					
	Over \$100,000,000		the > of 6.5 bp or \$ 75,000					
Annual Fee:								
			Fee					
	Stand Alone Bond Issues		5 bp X the outstanding principal amount					
	Private Placement bond issues		5 bp X the outstanding principal amount					
	Trust Fund Loan Program		5 bp X the outstanding principal amount					
	Master Loan Program		10 bp X the outstanding principal amount					
Authority: Fee revenues: 90-7-202 and 90-7-211, MCA; Investment Earnings: 90-7-202, MCA								

**Program Proposed Budget**

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	5.50	0.00	1.00	6.50	0.00	1.00	6.50	6.50
Personal Services	265,760	11,443	42,471	319,674	12,782	42,516	321,058	640,732
Operating Expenses	171,997	4,395	1,511,366	1,687,758	(75)	1,507,891	1,679,813	3,367,571
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	5,440,847	5,434,938	0	10,875,785	200,000	0	5,640,847	16,516,632
Benefits & Claims	0	0	0	0	0	0	0	0
Transfers	0	0	3,000,000	3,000,000	0	0	0	3,000,000
<b>Total Costs</b>	<b>\$5,878,604</b>	<b>\$5,450,776</b>	<b>\$4,553,837</b>	<b>\$15,883,217</b>	<b>\$212,707</b>	<b>\$1,550,407</b>	<b>\$7,641,718</b>	<b>\$23,524,935</b>
General Fund	0	0	3,053,837	3,053,837	0	50,407	50,407	3,104,244
State/Other Special	0	0	1,500,000	1,500,000	0	1,500,000	1,500,000	3,000,000
Federal Special	5,878,604	5,450,776	0	11,329,380	212,707	0	6,091,311	17,420,691
<b>Total Funds</b>	<b>\$5,878,604</b>	<b>\$5,450,776</b>	<b>\$4,553,837</b>	<b>\$15,883,217</b>	<b>\$212,707</b>	<b>\$1,550,407</b>	<b>\$7,641,718</b>	<b>\$23,524,935</b>

### Program Description

The Housing Division established on July 1, 1995, consolidated housing programs within the Department of Commerce into one division. The division includes:

- The Board of Housing, a seven-member, quasi-judicial board appointed by the Governor and administratively attached to the Department of Commerce. The board administers the Low-Income Housing Tax Credit, Multi-Family Loan, Reverse Annuity Mortgage, and Single Family Programs
- The Housing Assistance Bureau, comprised of three programs:
  - The HOME program provides grant funds to eligible government entities and Community Housing Development Organizations for assistance in financing new construction or rehabilitation of individual homes or rental units, tenant based rental assistance, and other eligible activities
  - The Housing and Urban Development (HUD) project based Section 8 program provides rental assistance to projects at fixed locations. The department earns fees from HUD under a performance-based contract for the tasks performed
  - The HUD tenant based Section 8 program provides rent assistance for very low income families, including elderly and disabled. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant.

The operating budgets for the Board of Housing and the two Section 8 programs are funded by enterprise funds and are not included in the program proposed budget table above or in HB 2.

Housing Division responsibilities are mandated primarily in Title 2, Chapter 15; Title 90, Chapter 1, and Chapter 6, MCA; 24 CFR 91, and 92; 24 CFR 5, 792, 813, 887, 982, and 984; and the Governor's Executive Order 27-81.

### Program Highlights

Housing Division Major Budget Highlights	
<ul style="list-style-type: none"> <li>◆ Executive increases the division budget 100 percent</li> <li>◆ New pilot project to replace pre-HUD code manufactured homes <ul style="list-style-type: none"> <li>• \$3 million state special revenue fund to establish a revolving loan for the program</li> <li>• \$3 million OTO general fund seed money to fund the revolving loan</li> <li>• \$100,000 general fund added to the base for administration</li> </ul> </li> <li>◆ OTO \$5.4 million federal appropriation in FY 2008 would allow the department to record an expenditure accrual for pre-2004 outstanding federal grant funds</li> </ul>	
Major LFD Issues	
<ul style="list-style-type: none"> <li>◆ Proposed pilot project lacks clear definition of intended results, making determination of success difficult</li> </ul>	

### Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Housing Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ -	-	\$ 3,053,837	19.2%	\$ 50,407	0.7%
01100 General Fund	-	-	3,053,837	19.2%	50,407	0.7%
02000 Total State Special Funds	-	-	1,500,000	9.4%	1,500,000	19.6%
02575 Mobile Home Revolving Loan Fund	-	-	1,500,000	9.4%	1,500,000	19.6%
03000 Total Federal Special Funds	5,878,604	100.0%	11,329,380	71.3%	6,091,311	79.7%
03110 Hud Comprehensive Counseling	69,384	1.2%	270,000	1.7%	270,000	3.5%
03300 Home Grants	5,809,220	98.8%	11,059,380	69.6%	5,821,311	76.2%
Grand Total	<u>\$ 5,878,604</u>	<u>100.0%</u>	<u>\$ 15,883,217</u>	<u>100.0%</u>	<u>\$ 7,641,718</u>	<u>100.0%</u>

In the 2007 biennium, HB 2 appropriations support the HOME program with an annual categorical federal grant from HUD. Grant funds are distributed, using a competitive process, to successful local governments and Community Housing Development Organizations with an allowed amount being held back at the state level to administer the program.

Beginning in the 2009 biennium, the Governor proposes a \$3.0 million one-time-only general fund appropriation for a pilot project that would finance the replacement of pre-HUD Code (1976) owner occupied manufactured housing. The general fund appropriation would be transferred to a state special revenue fund that would be used as a revolving loan fund. Ongoing general fund is also included in the executive budget for administrative costs of the pilot project. Both the general fund appropriation and the state special revenue appropriation would be included in HB 2.

**Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				22,993						24,387
Vacancy Savings				(11,550)						(11,605)
Inflation/Deflation				424						451
Fixed Costs				1,201						(3,300)
<b>Total Statewide Present Law Adjustments</b>				<b>\$13,068</b>						<b>\$9,933</b>
DP 7401 - HD Federal Grants Adjustment HB0002-OTO	0.00	0	0	5,434,938	5,434,938	0.00	0	0	200,000	200,000
DP 7409 - HD Administrative Costs Adjustments HB0002	0.00	0	0	2,770	2,770	0.00	0	0	2,774	2,774
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5,437,708</b>	<b>\$5,437,708</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$202,774</b>	<b>\$202,774</b>
Grand Total All Present Law Adjustments				\$5,450,776						\$212,707

**DP 7401 - HD Federal Grants Adjustment HB0002-OTO** - The executive budget recommends federal grant authority in the Housing Division be adjusted as follows: 1) increase federal appropriations \$200,000 per year for anticipated increased funding for the HUD Comprehensive Home Buyer Counseling program; and 2) include a one-time-only federal special appropriation (OTO) in the amount of \$5,234,938 for FY 2008 only to allow the department to record an accrual for pre-FY 2004 outstanding federal grant awards.

**LFD  
ISSUE**

Refer to the FY 2008 OTO Federal Funds Adjustment Requests issue in the agency summary section of this budget analysis.

**DP 7409 - HD Administrative Costs Adjustments HB0002** - The executive adds \$5,544 in the 2009 biennium for built in two percent annual lease adjustment per terms of lease.

**New Proposals**

New Proposals										
Fiscal 2008						Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7411 - HD Manufactured Home Renovation Program - OTO										
74	1.00	3,053,837	0	0	3,053,837	1.00	50,407	0	0	50,407
DP 7412 - HD Manufactured Home Renovation Program SSR Approp										
74	0.00	0	1,500,000	0	1,500,000	0.00	0	1,500,000	0	1,500,000
<b>Total</b>	<b>1.00</b>	<b>\$3,053,837</b>	<b>\$1,500,000</b>	<b>\$0</b>	<b>\$4,553,837</b>	<b>1.00</b>	<b>\$50,407</b>	<b>\$1,500,000</b>	<b>\$0</b>	<b>\$1,550,407</b>

**DP 7411 - HD Manufactured Home Renovation Program - OTO** - The executive budget recommends formation of a pilot project to provide safe, decent, energy efficient, and affordable replacement housing and decommission pre-HUD Code (1976) owner occupied manufactured housing. The strategy for accomplishing this goal would be to finance the replacement and decommissioning of individual pre-HUD Code manufactured homes with terms and conditions that assure affordability. The executive recommends a one-time-only \$3.0 million general fund appropriation that would be deposited to a state special revenue fund to establish a revolving loan fund. The executive budget includes an on-going general fund appropriation for program administration costs, totaling \$104,244 in the 2009 biennium.

The Governor proposes the following outcome indicators for this pilot project:

- Assist 120 to 200 Montana families with:
  - Decent safe housing
  - Lower energy bills
  - Appreciating asset developed for household
- Allow other energy programs to be used for other housing types
- Remove a continuing blight problem of recirculating poor quality mobile homes
- Provide access to traditional forms of lower cost financing

#### LFD ISSUE

##### Lack of Long Term Goal

The proposal does not indicate the long term goal of this pilot project nor the long term funding estimate to achieve the long term goal.

The stated goal for this proposal is to provide safe, decent, energy efficient and affordable replacement housing and decommission pre-HUD code owner occupied housing. Justification for this program indicates that nearly 29,000 mobile/manufactured homes in Montana, approximately 42 percent of total manufactured homes in Montana, are pre-HUD code. If 100 families are assisted each year, it would take decades to replace all of the homes. The proposal does not indicate if the long term goal is to assist in the replacement of all pre-HUD code manufactured homes in Montana or just a portion of the homes.

If the long term goal is to assist in the replacement of all pre-HUD code manufactured homes in Montana, it would take substantially more than the proposed \$3.0 million one time only appropriation to make meaningful progress towards goal. If the long term goal is to assist in the replacement of a portion of pre-HUD code manufactured homes in Montana, then what parameters will be used to shrink the pool from approximately 29,000 to a portion of that amount?

The legislature may want to seek answers to the following questions as it deliberates this new proposal:

1. What is the long term goal for this program?
2. What would define success for this program?
3. What is the estimated cost to achieve the long term goal?
4. Is the long term goal realistic?
5. What quantifiable and meaningful performance indicators should the legislature use to evaluate this program?

DP 7412 - HD Manufactured Home Renovation Program SSR Approp - This decision package accompanies DP 7411 and is the state special revenue appropriation for the revolving loan fund.

### Proprietary Program Description

#### Montana Board of Housing

The Montana Housing Act of 1975 created the Montana Board of Housing. The board is an agency of the state and operates within the Department of Commerce for administrative purposes. The powers of the board are vested in a seven member board, appointed by the Governor, subject to the confirmation of the State Senate. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing, and evaluates Board of Housing Programs. These programs include the Homeownership Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Revolving Loan Fund, and the Reverse Annuity Mortgage (RAM) Program.

The Board of Housing is funded by four enterprise funds (accounting entities 06030, 06031, 06078, and 06079) with revenues derived from an administrative charge applied to projects and mortgages financed. As such, the legislature does not approve rates for this program. There are no direct appropriations provided in HB 2.

There has not been any significant program, service, or customer base change since the last session. The Board of Housing is primarily mandated in Title 2, Chapter 15; and Title 90, Chapter 1, and Chapter 6, MCA.

**Proprietary Revenues and Expenses**

The Single Family program earns the bulk of its income from the spread between the interest yield on the Single Family Mortgage loans and the yield on the bonds. The board is allowed to earn 1 ½ percent on Pre 1980 Single Family Programs and 1 1/8 percent on the Post 1980 Single Family Programs.

The board also charges a cancellation fee of 1/2 of 1 percent of the loan amount reserved. Approximately 5 percent of loans reserved are cancelled. These fees are capitalized and are amortized as income over the life of the loans, as required by generally accepted accounting principles. Extension fees and late fees are also charged. The majority of these fees are capitalized and amortized over the life of the loans. The extension fees are 1/4 of 1 percent of the loan amount and the late fees are 1/2 of 1 percent of the loan amount. The amortization of these fees results in an average of approximately \$250,000 of income per year. These fees are deposited with the trustees and are used to originate new mortgages.

The board charges 4.5 percent of the amount of tax credit reserved for Low Income Housing Tax Credits, and also charges \$25.00 per unit for compliance fees. Tax credit fees are charged to cover the operating expenses of the program.

**Expenses Description**

Operations for the 2009 biennium are anticipated to be approximately \$3.9 million for FY 2008 and \$3.8 million for FY 2009. The operations of the board include purchasing mortgage loans, receiving repayments and prepayments, investing funds, issuing and redeeming bonds. During FY 2006, the board purchased \$153.0 million in mortgages and received \$142.0 million in mortgage repayments, prepayments, and interest. The board issued \$155.0 million in new bonds and paid \$49.0 million in bond interest and principal. The board employs 21.5 FTE.

**Working Capital Discussion:**Collection Of Mortgage Payments & Purchase Of Loans:

Each month the board receives funds from the financial institutions that service the board's Single Family and Multifamily loans. The funds include the amount of principal, interest, less servicing fees (.375%, .125% and .10% of the principal balance) that are due on the board's loans. The board's trustees collect the money. Twice monthly, the board purchases loans from new bond proceeds, prepayments or other revenues.

The board receives tax credit reservations fees when the tax credits are approved. These fees are deposited with the state treasurer and are used to cover expenses of the program. Reservations fees on the Single Family and Multifamily Programs are deposited with the trustees when the approved loans are reserved. They are deposited in the program acquisition account and are used to originate new mortgages.

Payment of Bond Debt

Principal and interest, on the Multifamily and Single Family Bond issues, is due on each February 1, June 1, August 1, and December 1. Scheduled debt payments for 2007 are \$50,624,869; 2008 are \$52,049,419; and 2009 are \$52,819,204.

Investments

The deposit of the initial bond proceeds, used for purchasing loans, is normally invested in a fixed-rate guaranteed investment contract. All debt service reserve funds and mortgage reserve funds that must be held as security for the bondholders are invested in long-term securities, repurchase agreements or guaranteed investment contracts. Under the Multifamily Program, the funds are invested to the next debt service date or to a loan purchase date.



Other Mortgage Purchases

The board purchases reverse annuity mortgages (RAM). The RAM loans are not repaid until the borrower dies or sells their home. These amounts are assets of the board and the interest is accrued monthly, but we may not receive the principal and interest repayments for many years.

The board also purchases out of the Housing Revolving Loan Program. These loans can be due on sale or amortizing. These amounts are assets of the board and the interest is accrued monthly.

## 2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
6030	BOH Financial			
6031	Housing Trust			
6078	Affordable	65010	Dept. of Commerce	Housing Division - Board of Housing
6079	Revolving Loan			

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
<b>Operating Revenues:</b>						
Fee revenue						
Administrative Fees	214,712	219,123	380,599	225,000	225,000	225,000
Investment Earnings	6,184,387	10,967,626	6,620,427	6,750,000	7,020,000	7,300,800
Securities Lending Income	-	-	610	1,000	1,000	1,000
Premiums	-	-	-	-	-	-
Other Operating Revenues	36,389,535	37,275,124	38,740,558	53,325,399	64,358,940	75,101,674
Total Operating Revenue	42,788,634	48,461,873	45,742,194	60,301,399	71,604,940	82,628,474
<b>Operating Expenses:</b>						
Personal Services	828,467	940,524	978,777	1,035,074	1,042,342	1,045,498
Other Operating Expenses	1,481,627	1,560,088	1,718,678	2,986,364	2,811,093	2,721,796
Debt Service Expenses	38,685,254	39,958,754	41,238,457	54,293,051	65,565,904	76,457,019
Total Operating Expenses	40,995,348	42,459,366	43,935,912	58,314,489	69,419,339	80,224,313
Operating Income (Loss)	1,793,286	6,002,507	1,806,282	1,986,910	2,185,601	2,404,161
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	-	-	(1,782)	-	-	-
Federal Indirect Cost Recoveries	12,943	7,105	7,450	-	-	-
Other Nonoperating Revenues (Expenses)	238,508	396,721	236,604	250,000	250,000	250,000
Net Nonoperating Revenues (Expenses)	251,451	403,826	242,272	250,000	250,000	250,000
Income (Loss) Before Operating Transfers	2,044,737	6,406,333	2,048,554	2,236,910	2,435,601	2,654,161
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	2,044,737	6,406,333	2,048,554	2,236,910	2,435,601	2,654,161
Total Net Assets- July 1 - As Restated	124,872,438	126,917,175	133,323,508	135,369,714	137,606,624	140,042,225
Prior Period Adjustments	-	-	(2,348)	-	-	-
Depreciation adjustment	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	124,872,438	126,917,175	133,321,160	135,369,714	137,606,624	140,042,225
Net Assets- June 30	126,917,175	133,323,508	135,369,714	137,606,624	140,042,225	142,696,386
60 days of expenses						
(Total Operating Expenses divided by 6)	6,832,558	7,076,561	7,322,652	9,719,082	11,569,890	13,370,719

2009 Biennium Report on Internal Service and Enterprise Funds (Continued)						
Fee	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Reservation fees-Single Family Program	1/2 of 1 % of the loan amount reserved	Fee was terminated	No Change	No Change	No Change	No Change
Cancellation fees-Single Family Program		1/2 of 1 % of the loan amount reserved	No Change	No Change	No Change	No Change
Extension Fee	1/4 of 1% of the loan amt for 30 days	No Change	No Change	No Change	No Change	No Change
Late Fee	1/2 of 1% of the loan amt for 30 days	No Change	No Change	No Change	No Change	No Change
Pre 1980 Single Family Programs	1 1/2% spread between mortgage interest rate and bond yield. No limit on investment earnings	No Change	No Change	No Change	No Change	No Change
Post Single Family Programs	1 1/8% spread between mortgage interest rate and bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change	No Change	No Change
Pre 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. No limit on investment earnings	No Change	No Change	No Change	No Change	No Change
Post 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change	No Change	No Change
Multifamily Reservation Fee	up to 1% of the loan amount reserved	No Change	No Change	No Change	No Change	No Change
Reservation fees-Low Income Tax Credit Program (LIT 4	1/2% of the tax credit amount reserved	No Change	No Change	No Change	No Change	No Change
Compliance monitoring fee-Low Income Tax Credit Pro	\$20 per unit	No Change	\$25 per unit	No Change	No Change	No Change
Interest income on reverse annuity mortgage loans (RA	5% (new) 7% (old) loans	No Change	No Change	No Change	No Change	No Change
Housing Revolving Loan Fund (HRLA)			variable rates ranging from 2% to 6%	No Change	No Change	No Change
Interest on Investments	STIP investment rate	No Change	No Change	No Change	No Change	No Change

## Proprietary Rate Explanation

## Proprietary Program Description HUD Section 8 Housing

There are two HUD Section 8 Housing programs.

The Project Based Section 8 program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The program provides 4,268 rental housing units in 100 projects for low income and elderly families in the state.

The Tenant Based Section 8 program provides rent assistance for very low income families, including elderly and disabled, to ensure they have decent, safe, and sanitary housing. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30 percent of their income towards rent and utilities. Approximately 4,100 families are served in this program.

The HUD Section 8 Housing programs are funded by two enterprise funds (accounting entities 06075 and 06074) with revenues derived from the HUD performance based annual contribution contracts.

The Section 8 Housing programs are primarily mandated in 24 CFR Parts 5, 8, 35, 792, 813, 880, 882, 883, 887, 888, 891, 903, 982, 984 and 985 of the Code of Federal Regulations Section 8 Housing authorization and the Governor's Executive Order 27-81 Authorization of Section 8 Housing.

### **Proprietary Revenues and Expenses**

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Section 8 programs workload and customer level will remain constant.

The administration side of the program does not currently make enough from HUD to fully fund administrative operations, so retained earnings, and interest on them are used to make up the difference between needed revenues and administration expenses for the program. It is anticipated that the retained earnings will continue to fund the program indefinitely, unless there are more negative changes upcoming from HUD. The retained earnings are limited to use for operation of the program by federal code.

The Project Based Section 8 Contract Administration is funded through a performance based contract with HUD, based on a 5 year renewable RFP. The program is entering its seventh year, and the department expects HUD to extend the contract in future years, as it has obtained an outstanding review score in most years it has administered the program. Administrative costs are paid as a fixed percent of the HUD fair market rent, currently 2 percent, with a provision for another 1 percent awarded for superior performance, or 1 percent removed for failure to perform. The amounts received are based in 17 different incentive based performance standards, each of which is evaluated by HUD. Retained earnings are to be used for operations of this program. Funding for rents is paid by HUD, based on actual contracts negotiated between the department and the 107 individual owners of the projects, set up on a procedure dictated by HUD.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Project Based Section 8 program is authorized 7.00 FTE and the Tenant Based Section 8 program is authorized 12.00 FTE; for a total 19.00 FTE.

There has not been any significant program, service, or customer base change since the last session; however the federal government has proposed maintaining the levels of funding for the Housing Choice Vouchers program with only a minor increase effectively allowing the program to serve fewer families with rising costs for rent and utilities.

## 2009 Biennium Report on Internal Service and Enterprise Funds 2009

Fund	Fund Name	Agency #	Agency Name	Program Name
6074	SEC 8 Project Based	65010	Dept. of Commerce	Housing Division - PB Section 8

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
<b>Operating Revenues:</b>						
Fee revenue						
Administration Fees	-	-	-	-	-	-
Investment Earnings	8,678	28,136	49,866	10,500	10,500	10,500
Securities Lending Income	-	-	741	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	16,020,550	17,199,810	17,258,134	19,986,185	20,197,986	21,006,326
Total Operating Revenue	16,029,228	17,227,946	17,308,741	19,996,685	20,208,486	21,016,826
<b>Operating Expenses:</b>						
Personal Services	311,745	328,073	322,422	318,024	352,156	353,750
Other Operating Expenses	15,374,536	16,603,368	16,600,360	19,425,284	19,018,801	20,327,165
Total Operating Expenses	15,686,281	16,931,441	16,922,782	19,743,308	19,370,957	20,680,915
Operating Income (Loss)	342,947	296,505	385,959	253,377	837,529	335,911
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	-	(3,932)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(3,932)	-	-	-	-
Income (Loss) Before Operating Transfers	342,947	292,573	385,959	253,377	837,529	335,911
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	342,947	292,573	385,959	253,377	837,529	335,911
Total Net Assets- July 1 - As Restated	-	980,042	1,272,600	1,658,559	1,911,936	2,749,465
Prior Period Adjustments	637,095	(15)	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	-	-	1,272,600	1,658,559	1,911,936	2,749,465
Net Assets- June 30	980,042	1,272,600	1,658,559	1,911,936	2,749,465	3,085,376
60 days of expenses (Total Operating Expenses divided by 6)	2,614,380	2,821,907	2,820,464	3,290,551	3,228,493	3,446,819

Requested Rates for Enterprise Funds  
Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Administration Contract						
Rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Base fee rate paid by HUD = 2% time Fair Market Rent for all projects under ACC contract for standard performance, as judged by HUD monthly, quarterly, and annually.						
Administration Contract						
Rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Performance fee incentive rate based on 17 Incentive Based Performance Standards (IBPS), graded monthly, quarterly, and annually by HUD. Can be either positive or negative, based on whether time standards and performance requirements are met on each of the 17 IBPS standards.						
Rate 3 (per unit)						
Rents Contract						
Rate	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents.						
Use this space for any specific narrative description of the enterprise rates requested. A detailed published record must be kept in the agency's files.						

## 2009 Biennium Report on Internal Service and Enterprise Funds 2009

Fund	Fund Name	Agency #	Program Name
6075	HUD Section 8 Housing Program	65010	Housing Division - TB Section 8

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
<b>Operating Revenues:</b>						
Fee revenue						
Administration Fees	-	-	-	-	-	-
Investment Earnings	35,246	55,222	139,909	43,000	43,000	43,000
Securities Lending Income	-	-	2,339	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	18,354,340	19,011,953	18,420,738	21,844,003	22,719,483	23,629,981
Total Operating Revenue	18,389,586	19,067,175	18,562,986	21,887,003	22,762,483	23,672,981
<b>Operating Expenses:</b>						
Personal Services	528,932	504,234	500,762	576,991	552,330	552,989
Other Operating Expenses	18,870,921	18,502,975	17,726,058	22,716,265	20,164,381	21,426,354
Total Operating Expenses	19,399,853	19,007,209	18,226,820	23,293,256	20,716,711	21,979,343
Operating Income (Loss)	(1,010,267)	59,966	336,166	(1,406,253)	2,045,772	1,693,638
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(1,010,267)	59,966	336,166	(1,406,253)	2,045,772	1,693,638
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(1,010,267)	59,966	336,166	(1,406,253)	2,045,772	1,693,638
Total Net Assets- July 1 - As Restated	-	1,814,181	1,874,147	2,210,313	804,060	2,849,832
Prior Period Adjustments	2,824,448	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	2,824,448	1,814,181	1,874,147	2,210,313	804,060	2,849,832
Net Assets- June 30	1,814,181	1,874,147	2,210,313	804,060	2,849,832	4,543,470
60 days of expenses (Total Operating Expenses divided by 6)	3,233,309	3,167,868	3,037,803	3,882,209	3,452,785	3,663,224

## Requested Rates for Enterprise Funds Fee/Rate Information

	Actual FYE 04	Actual FY 05	Actual FY 06	Budgeted FY 07	Budgeted FY08	Budgeted FY09
Administration Contract Rate	\$45.79	\$45.79	\$45.71	\$46.25	\$46.80	\$47.34
Base fee rate paid by HUD = \$45.79 per unit per month under lease for Housing Choice Vouchers, and \$45.79 per month for each unit under HAP contract on Mod Rehab. Estimate increases of 3.5% per year for FY 2006 and FY 2007.						
Hard to House Fees Rate	\$75.00	\$75.00	\$75.00	\$75.00	\$75.00	\$75.00
Under HUD contract, for every family with 3 or more minors which either leases the first time or moves; HUD will pay a fee of \$75.00.						
Homeownership Start-up Fee Rate	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00
Under HUD contract, for every family the program starts in Homeownership Vouchers Homeownership Assistance, HUD allows a fee of \$1,000.						
Project Based Section 8 Opt-Out Start-up Fee Rate	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00
Under HUD contract, for every unit HUD approves transferring from Project Based Section 8 to the Housing Choice Vouchers Program, HUD provides reimbursement of start-up expenses of \$250.						
Rents Contract Rate	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents.						

**Program Description**

The Board of Investments invests all state funds in the Unified Investment Program, established under Article VIII, Section 13 of the Montana Constitution. Local governments may invest in the Short-Term Investment Pool (STIP). The board manages seven investment pools, which operate like mutual funds.

- Retirement Funds Bond Pool
- Trust Funds Bond Pool
- Short Term Investment Pool
- Montana Domestic Stock Pool
- Montana International Equity Pool
- Montana Private Equity Pool
- Montana Real Estate Pool

Annual audited financial statements are prepared for each investment pool. Investments not managed in pools are included in an "all other funds" financial statement. The In-State Investment Program consists of Montana residential mortgages purchased by the state's two large pension funds and commercial loans funded by the Coal Tax Trust. The board also issues tax-exempt bonds and lends the proceeds to eligible government agencies for a variety of purposes.

In addition to the board's investment responsibilities, it is charged with creating solutions to financial issues facing new and expanding businesses in the State of Montana. To accomplish this goal, the board administers a number of different loan programs that can be specifically tailored to meet an individual business' or local government's needs.

The Board of Investments is funded with both enterprise and internal service type proprietary funds, and no direct appropriations are provided in HB 2.

Board of Investment responsibilities are outlined primarily in Article VIII, Section 13 of the Montana Constitution, Title 2, Chapter 15, and Title 17, Chapters 5 and 6, MCA.

**Proprietary Program Description**  
**Unified Investment Program**

The Board of Investments manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Section 17-6-201, created the Board of Investments, and gave the board sole authority to invest state funds. The board also invests local government funds at their discretion. The board currently manages an investment portfolio with a market value of approximately \$11.2 billion. The board manages the portfolio under the "prudent expert principle."

To provide for diversification and reduced risk, the board manages several investment pools in which funds of similar types are invested. The Legislative Auditor audits the board annually. The board consists of nine members appointed by the Governor.

**In-State Investments**

Section 17-6-305, MCA authorizes the board to invest up to 25 percent of the Permanent Coal Tax Trust Fund to assist Montana's economic development. This "In-State Investment Program" makes business loans from the trust in participation with financial institutions. The board lends trust fund monies to local governments to fund infrastructure that will serve job-creating businesses locating in the government's jurisdiction. The board also lends low-interest monies funded from the trust to value-added type businesses creating jobs. Throughout FY 2006, the board purchased Montana residential mortgages with pension funds as part of the In-State Investment Program.

**INTERCAP Program**

The board sells tax-exempt bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or bridge financing are also available. The INTERCAP and In-State Investment Programs were created in fiscal year 1984 as part of the "Build Montana" program.

Board of Investments customers include: state agencies, the university system, local governments, financial institutions, and local economic development organizations.

There has been no significant change in the services provided by the Board of Investments from those provided in the last biennium, although the investment portfolio continues to grow in size and complexity.

**Proprietary Revenues and Expenses****Revenue Description**

The Board of Investments is funded by two proprietary fund types. Accounting entity 06014, an enterprise fund, funds the INTERCAP or bond programs. Accounting entity 06527, an internal service fund, funds the Investment Programs.

Nearly all bond program revenues are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the bond program between draws. Remaining revenues are received monthly from the board's contract with the Montana Facility Finance Authority.

Nearly all investment program revenues are generated from charges to each account that the board invests. The revenue objective of the Investment Program is to fairly assess the costs of operations while maintaining a reasonable and prudent 60 day working capital reserve.

The Board of Investments does not receive any direct appropriations.

**Expense Description**

The major cost drivers within the Board of Investments are personal services, operating expenses and expenditures related to the periodic replacement of computer equipment. Additionally, over \$3.068 million was disbursed from accounting entity 06014 in FY 2006 via a statutory appropriation for debt service requirements related to the state's bonding activity.

Please note that accounting entity 06527 also pays for 1.00 FTE in the Treasurers' Office in the Department of Administration through a direct appropriation in HB 2.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the division's workload and customer levels will remain constant, although investment portfolios will continue to grow in size and complexity.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Board of Investments is authorized 34.00 FTE (approximately 30.00 funded from accounting entity 06527, and 4.00 funded from accounting entity 06014) and personal services expenditures include board member per diem.

**Proprietary Rate Explanation**

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2 and setting the fee at that level. This methodology is continued in the 2009 biennium because it provides an easy comparison with historical financial activity.

**2009 Biennium Report on Internal Service and Enterprise Funds 2009**

Fund 6527		Fund Name Investment Division	Agency # 65010	Agency Name Dept. of Commerce	Program Name Board of Investments		
	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09	
<b>Operating Revenues:</b>							
Fee revenue							
Administrative Fees	2,958,910	2,963,764	3,224,490	3,128,734	4,664,072	4,664,072	
Investment Earnings	-	-	-	-	-	-	
Securities Lending Income	-	-	-	-	-	-	
Premiums	-	-	-	-	-	-	
Other Operating Revenues	-	-	-	-	-	-	
Total Operating Revenue	2,958,910	2,963,764	3,224,490	3,128,734	4,664,072	4,664,072	
<b>Operating Expenses:</b>							
Personal Services	2,024,742	1,779,348	1,884,259	2,345,733	2,422,450	2,415,651	
Other Operating Expenses	822,509	1,476,351	1,603,959	1,669,724	2,207,413	1,974,897	
Total Operating Expenses	2,847,251	3,255,699	3,488,218	4,015,457	4,629,863	4,390,548	
Operating Income (Loss)	111,659	(291,935)	(263,728)	(886,723)	34,209	273,524	
<b>Nonoperating Revenues (Expenses):</b>							
Gain (Loss) Sale of Fixed Assets	-	(3,482)	-	-	-	-	
Federal Indirect Cost Recoveries	-	-	-	-	-	-	
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-	
Net Nonoperating Revenues (Expenses)	-	(3,482)	-	-	-	-	
Income (Loss) Before Operating Transfers	111,659	(295,417)	(263,728)	(886,723)	34,209	273,524	
Contributed Capital	-	-	-	-	-	-	
Operating Transfers In (Note 13)	-	-	-	900,000	-	-	
Operating Transfers Out (Note 13)	-	-	-	-	-	-	
Change in net assets	111,659	(295,417)	(263,728)	13,277	34,209	273,524	
Total Net Assets- July 1 - As Restated	662,048	773,707	478,290	214,562	227,839	262,048	
Prior Period Adjustments	-	-	-	-	-	-	
Cumulative effect of account change	-	-	-	-	-	-	
Total Net Assets - July 1 - As Restated	662,048	773,707	478,290	214,562	227,839	262,048	
<b>Net Assets- June 30 (Fund Balance)</b>	<b>773,707</b>	<b>478,290</b>	<b>214,562</b>	<b>227,839</b>	<b>262,048</b>	<b>535,572</b>	
Add Non Current Assets	130,843	129,476	152,424	181,385	188,640	196,186	
<b>Working Capital</b>	<b>904,550</b>	<b>607,766</b>	<b>366,986</b>	<b>409,224</b>	<b>450,688</b>	<b>731,758</b>	
60 days of expenses (Total Operating Expenses divided by 6)	474,542	542,617	581,370	669,243	771,644	731,758	

Requested Rates for Internal Service Funds Fee/Rate Information for Legislative Action						
	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
BOI Administrative Fee Rate	\$2,958,910	\$2,963,764	\$3,224,490	\$3,128,734	\$4,664,072	\$4,664,072
Allocation Methodology: The revenue objective of the Board of Investments is to assess the costs of operations to each portfolio the Board invests while attempting to maintain a reasonable and prudent 60 day working capital reserve.						



## 2009 Biennium Report on Internal Service and Enterprise Funds 2009

Fund	Fund Name	Agency #	Agency Name	Program Name
6014	Industrial Revenue Bond I-95	65010	Dept. of Commerce	Board of Investments

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
<b>Operating Revenues:</b>						
Fee revenue						
Fee Revenues	7,939	4,671	6,794	13,000	13,000	13,000
Investment Earnings	82,642	636,922	570,078	501,426	793,135	816,929
Securities Lending Income	-	-	259			
Premiums	-	-	-			
Other Operating Revenues	2,161,416	2,125,547	3,049,576	3,614,669	5,338,398	5,382,885
Total Operating Revenue	2,251,997	2,767,140	3,626,707	4,129,095	6,144,533	6,212,814
<b>Operating Expenses:</b>						
Personal Services	186,075	252,489	249,637	266,950	277,628	288,733
Operating Expenses	158,927	183,086	122,185	119,120	122,372	126,267
Debt Service Expenses	1,851,563	2,190,826	3,068,932	3,696,131	5,621,546	5,781,182
Total Operating Expenses	2,196,565	2,626,401	3,440,754	4,082,201	6,021,546	6,196,182
Operating Income (Loss)	55,432	140,739	185,953	46,894	122,987	16,632
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	-	(2,945)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(2,945)	-	-	-	-
Income (Loss) Before Operating Transfers	55,432	137,794	185,953	46,894	122,987	16,632
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	(900,000)	-	-
Change in net assets	55,432	137,794	185,953	(853,106)	122,987	16,632
Total Net Assets- July 1 - As Restated	4,975,121	5,030,553	5,168,347	5,354,300	4,501,194	4,624,181
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	4,975,121	5,030,553	5,168,347	5,354,300	4,501,194	4,624,181
Net Assets- June 30	5,030,553	5,168,347	5,354,300	4,501,194	4,624,181	4,640,813
60 days of expenses (Total Operating Expenses divided by 6)	366,094	437,734	573,459	680,367	1,003,591	1,032,697

Requested Rates for Enterprise Funds						
Fee/Rate Information						
	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Budgeted Revenues						
Fees & Investment Revenues	\$2,161,416	\$2,767,141	\$3,626,449	\$4,129,095	6,144,533	6,212,814

**Proprietary Significant Present Law**

The Board of Investments accounting entity 06527 has two decision packages which affect portfolio assessments.

The executive budget proposes two present law adjustments based on the board's governing "prudent expert" statute that requires it to minimize risk and maximize return

DP 7501 – BOI Investment Research & Investment Tools – The executive budget recommends increasing the board budget \$390,000 annually for the following investment research and tools:

- 1) General investment consultant to assist in asset allocation, conduct pension fund asset/liability studies, and assist in the selection and monitoring of external investment managers, at an annual additional cost of \$105,000;
- 2) Specialist real estate consultant to search for and assist in finding real estate managers for the new real estate pool created by the board, at an annual cost of \$150,000;
- 3) Anticipated cost increase for the financial system software used by the board staff to provide security research and portfolio order management, at an additional annual cost of \$75,000; and
- 4) Additional research tools, at an additional annual cost of \$60,000.

The total cost of this decision package is \$390,000 in FY 2008 and FY 2009 and is funded from accounting entity 06527. The executive estimates this decision package would impact assessments as follows:

	FY 2008	FY 2009
Requested Fee Assessment	\$4,664,072	\$4,664,072
Decision Package Amount	\$390,000	\$ 390,000
Variance:	\$4,274,072	\$4,274,072

DP 7502 - Administrative Costs Adjustments – The executive budget adds \$225,822 in FY 2008 and \$83,968 in FY 2009 and is funded from the board's internal service fund which derives revenue from administrative fee assessments. Items requested include adjustments for overtime, per diem, rent adjustments, and indirect cost adjustments. The proposal would also provide for asset/liability studies of seven smaller pension funds at an estimated cost of \$140,000 in FY 2008 only (\$20,000 \* 7 = \$140,000). The executive estimates this decision package would impact assessments as follows:

	FY 2008	FY 2009
Requested Fee Assessment	\$4,664,072	\$4,664,072
Decision Package Amount	\$ 225,822	\$ 83,968
Variance:	\$4,438,250	\$4,580,104

**Proprietary New Proposals**

There are no new proposals for accounting entity 06527.

**Program Proposed Budget**

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grants	625,646	100,000	0	725,646	100,000	0	725,646	1,451,292
<b>Total Costs</b>	<b>\$625,646</b>	<b>\$100,000</b>	<b>\$0</b>	<b>\$725,646</b>	<b>\$100,000</b>	<b>\$0</b>	<b>\$725,646</b>	<b>\$1,451,292</b>
Federal Special	625,646	100,000	0	725,646	100,000	0	725,646	1,451,292
<b>Total Funds</b>	<b>\$625,646</b>	<b>\$100,000</b>	<b>\$0</b>	<b>\$725,646</b>	<b>\$100,000</b>	<b>\$0</b>	<b>\$725,646</b>	<b>\$1,451,292</b>

**Program Description**

The Director's Office/Management Services Division consists of three programs:

- The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana.
- The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting, budgeting, fiscal management, contracting, purchasing, information technology, human resources, payroll, benefits, and training.
- The Montana Council on Developmental Disabilities provides planning that assists Montanans with disabilities to live, work, and participate in their communities.

The Director's Office/Management Services Division responsibilities are mandated primarily in Title 2, Chapter 15 and Title 90, Chapter 1, MCA. The Montana Council on Developmental Disabilities' responsibilities are mandated primarily in Title 53, Chapter 20, MCA.

**Program Highlights**

<b>Director/Management Services Division</b>	
<b>Major Budget Highlights</b>	
◆	Executive budget adds \$100,000 federal grant authority each year for Montana Council on Developmental Disabilities
<b>Major LFD Issues</b>	
◆	None

**Funding**

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Director/Management Serv						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
03000 Total Federal Special Funds	\$ 625,646	100.0%	\$ 725,646	100.0%	\$ 725,646	100.0%
03441 Ddpac - Dev Disabled Council	625,646	100.0%	725,646	100.0%	725,646	100.0%
Grand Total	<u>\$ 625,646</u>	<u>100.0%</u>	<u>\$ 725,646</u>	<u>100.0%</u>	<u>\$ 725,646</u>	<u>100.0%</u>

The Montana Council on Developmental Disabilities is entirely funded with federal special revenues and is shown in the proposed budget table in this narrative. The Director's Office/Management Services Division is funded by an internal service proprietary fund from indirect costs charged to all agency programs.

### LFD COMMENT

For a more detailed explanation on indirect costs charged to each program, and the basis for assessing indirect costs, refer to the discussion on rates contained in the program narrative at the end of this program.

### Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2008-----						-----Fiscal 2009-----				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 8105 - MSD MCDD Federal Grants Adjustment HB0002										
0.00	0	0	100,000	100,000		0.00	0	0	100,000	100,000
<b>Total Other Present Law Adjustments</b>										
<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$100,000</b>	<b>\$100,000</b>		<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$100,000</b>	<b>\$100,000</b>
Grand Total All Present Law Adjustments				\$100,000						\$100,000

DP 8105 - MSD MCDD Federal Grants Adjustment HB0002 - The executive budget adds \$100,000 federal special revenue authority each year of the 2009 biennium for increased grants for the Montana Council on Developmental Disabilities.

### Proprietary Rates

#### Proprietary Program Description

The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively-attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana.

The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting, budgeting, fiscal management, contracting, purchasing, information technology, human resources, payroll, benefits, and training.

**Proprietary Revenues and Expenses**

## Revenue Description:

The Director's Office/Management Services Division; is funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the divisions indirect cost plan. Indirect costs are allocated to supported programs based upon federally calculated, and legislatively approved indirect cost rates applied to actual personal services expenditures.

## Expense Description:

The major cost drivers within the Director's Office/Management Services Division are personal services, operating expenses and expenditures related to the periodic replacement of the agency's computer equipment.

Non-typical and one-time-only expenses are subtracted out of the division's future cost projections before calculating the indirect rate. For the purposes of projecting the indirect rate for the 2009 biennium, it is assumed the agency's divisions, bureaus, programs, and staff remains constant. The proposed indirect cost rate would fund 17.00 FTE in the 2009 biennium, 0.50 FTE more than the number of FTE approved in the 2007 biennium.

## Working Capital Discussion:

The division's indirect cost rate is calculated by dividing projected annual expenses, plus a nominal 60 day working capital reserve, by the projected actual personal services expenses of supported divisions, bureaus, and programs. Federally funded programs are allocated indirect costs by an annually calculated indirect cost rate, while state funded programs are allocated indirect costs via a legislatively approved indirect cost rate.

The division's working capital objective is to recover the costs necessary to fund the division's ongoing operations. The division needs to maintain a nominal 60 day working capital reserve to meet ongoing operational costs.

## Fund Equity and Reserved Fund Balance:

At the proposed rates, the department projects a fiscal year end 2009 ending working capital reserve of approximately 60 days. All interest earnings on the working capital reserve are distributed to the state general fund.

**Proprietary Rate Explanation**

## Rate Explanation:

The division negotiates a federal indirect cost rate on an annual basis. The negotiated rate is a fixed rate for federally funded programs. This rate is then applied against actual federally funded personal services expenditures within the department, not including the Director's Office/ Management Services Division.

The federally calculated rate requires that a carry-forward amount be built into the rate. This carry-forward amount represents the amount the division under-recovered or over-recovered in a given fiscal year. This computation compares what was originally calculated to what actually occurred. The difference is then carried forward into the following year's rate.

The division's indirect cost rate is determined based on guidelines prescribed by the federal government. Additionally, the division complies with 17-3-111, MCA, which requires agencies to calculate a rate that would recover indirect costs to the greatest extent possible. In order to comply with this statute, the division has requested a rate that may vary slightly from the annually calculated federal rate. The rate approved by the legislature is considered a cap; therefore, the division cannot impose a rate higher than what has been approved by the legislature. However, the annually calculated federal rate may be slightly lower.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6542	Commerce Centralized Services	65010	Dept. of Commerce	Director/Management Services

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
<b>Operating Revenues:</b>						
Fee revenue						
Administrative Fees	896,437	954,738	1,216,759	1,270,000	1,336,017	1,318,972
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	57,278	25,000	25,012	25,000	25,000	25,000
Total Operating Revenue	953,715	979,738	1,241,771	1,295,000	1,361,017	1,343,972
<b>Operating Expenses:</b>						
Personal Services	859,583	911,124	1,005,708	1,042,734	1,117,949	1,122,181
Other Operating Expenses	206,479	203,192	216,565	228,433	313,761	233,264
Total Operating Expenses	1,066,062	1,114,316	1,222,273	1,271,167	1,431,710	1,355,445
Operating Income (Loss)	(112,347)	(134,578)	19,498	23,833	(70,693)	(11,473)
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(112,347)	(134,578)	19,498	23,833	(70,693)	(11,473)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(112,347)	(134,578)	19,498	23,833	(70,693)	(11,473)
Total Net Assets- July 1 - As Restated	412,246	299,599	165,021	184,519	208,352	137,659
Prior Period Adjustments	(300)	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	411,946	299,599	165,021	184,519	208,352	137,659
<b>Net Assets- June 30 (Fund Balance)</b>	<b>299,599</b>	<b>165,021</b>	<b>184,519</b>	<b>208,352</b>	<b>137,659</b>	<b>126,186</b>
Add Non Current Assets	85,722	88,876	91,775	94,775	97,775	100,775
<b>Working Capital</b>	<b>385,321</b>	<b>253,897</b>	<b>276,294</b>	<b>303,127</b>	<b>235,434</b>	<b>226,961</b>
60 days of expenses (Total Operating Expenses divided by 6)	177,677	185,719	203,712	211,861	238,618	225,908

Requested Rates for Internal Service Funds						
Fee/Rate Information						
	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
State Programs						
Indirect Cost Rate	15.00%	15.00%	13.70%	13.65%	14.00%	13.75%
Federal Programs						
Indirect Cost Rate	15.00%	15.00%	13.70%	13.65%	14.00%	13.75%
Allocation Methodology: Indirect costs for the Director's Office/Management Services Division are allocated to supported programs via a federally calculated indirect cost plan for federally funded programs, and a legislatively approved rate for state funded programs. Indirect cost rates are charged to supported programs based upon actual personal services expenditures.						
Authority: Federally calculated indirect cost plan for federally funded programs, and legislatively approved rate for state funded programs. FY 2008 and FY 2009 federal rate is an estimated rate.						

**Proprietary Significant Present Law**

The executive budget recommends present law adjustments for the replacement of the Department's main file servers and disk storage units; the addition of 0.50 FTE to be used to enhance the agencies web presence; and administrative costs, such as overtime, computer equipment based upon 4 year replacement schedules, and annual rent increases.

The impact of these present law proposals on the requested rate is shown below.

**Hardware Replacements OTO:**

	FY 2008	FY 2009
2009 Biennium Requested Rate	14.000%	13.750%
2009 Biennium Rate W/O Hardware	13.130%	13.645%
Variance:	0.87%	0.105%

**Web Developer:**

	FY 2008	FY 2009
2009 Biennium Requested Rate	14.000%	13.750%
2009 Biennium Rate W/O Web Dev.	13.645%	13.432%
Variance:	0.355%	0.318%

**Administrative Costs:**

	FY 2008	FY 2009
2009 Biennium Requested Rate	14.000%	13.750%
2009 Biennium Rate W/O Admin Costs	13.831%	13.635%
Variance:	0.169%	0.115%

**Proprietary New Proposals**

There are no new proposals.